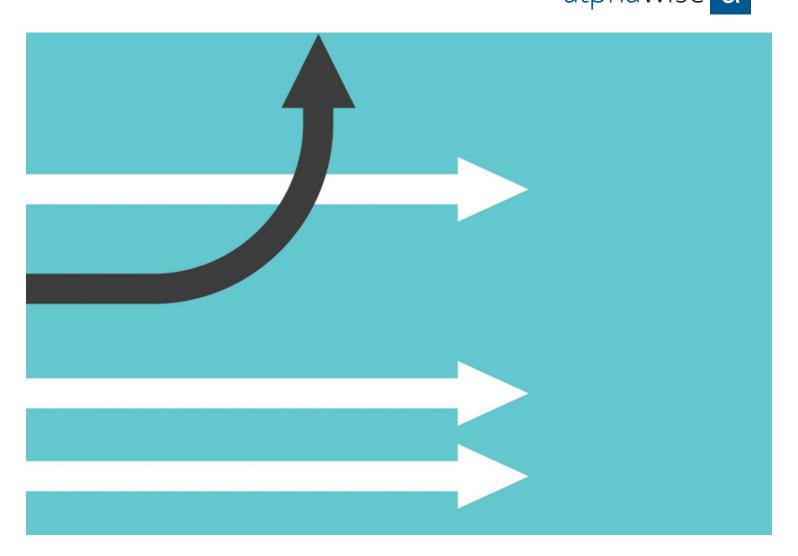




March 13, 2019 01:00 AM GMT

Insurance

Reinventing Life Insurance Agency Distribution Globally





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This joint research report from Boston Consulting Group and Morgan Stanley Research looks at the future of human-to**human life insurance distribution globally.** This report draws on more than 50 interviews with senior insurance executives, an AlphaWise survey of 850 agents in China, India, Germany and the United States, and detailed proprietary financial modelling of the interaction between the in-force book of business, new business and agency economics.

Life insurers globally face multiple challenges - including the sustainability of agency distribution. In developed markets, agency forces are often aging, have suffered from a lack of investment in infrastructure, and tend to focus on traditional products. While in emerging markets, where the agency channel is more vibrant, part time agents and their associated high churn, do not position insurers well for the long term.

In certain regions, investors are questioning the long-term sustainability of agency distribution. The sales processes remain "oldschool", cumbersome, inefficient and inconsistent with the fast evolving customer expectations that are now being set by digital leaders. The fact that new business performance is not always clearly distinguished from that of in-force blocks adds to investors' scepticism, elevating the cost of equity of many carriers with capital-intensive in-force blocks of business.

The agency model of the future is a reinvented digitally-enabled **human to human one.** We believe the winning model is a hybrid one in which technology (digital, data & analytics, etc.) is leveraged to enable more effective and efficient human-to-human interactions, improving the overall client and agent experience while delivering better economic outcomes for all stakeholders. In this context, agents will be embedded in a multi-channel, and multi-solution ecosystem, focused on addressing customers' holistic needs.

Per unit sales costs need to decrease materially. Insurers need to increase the value delivered to customers and manufacturing margins need to go up to preserve the long-term sustainability of the industry. At the same time, agents' total incomes need to increase, with agents being significantly more productive than they are today.

There is substantial value creation and valuation uplift opportunity for insurers addressing these challenges. A four-part framework (detailed in the upcoming sections) has the potential to generate significant impact: our modelling suggests that shareholder value for a traditional German insurer could be more than doubled, while operating margins for a typical US life insurer could increase by

In our view, insurers globally should consider leveraging strategies from successful insurers, particularly those in China. The industry in China has experienced meaningful per agent productivity improvement, despite the steep growth in agents over the past few years. While a shift in product mix has been a major driver in productivity, a shift to a completely digital, data and analytics enabled endto-end experience has also contributed to meaningful productivity gains.

We see opportunities for those insurers that respond quickly.

We acknowledge that transformational change is challenging - particularly that which requires changing the status quo relationship with agents. However, regulation is moving fast, digital players continue to experiment with new ideas, and traditional competitive pressures are only likely to increase.



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Executive summary

alphawise α

Primary Research

See what others don't. 1)

China's strong level of digitalization is a surprise finding, with technology adoption nearly as high as in the US and Germany. India has yet to develop fully, though where it has, Non-LIC insurers are leading the way. 2) The strength of China's agency technology infrastructure has been a key driver of productivity improvement, which we think has lessons for other markets. 3) 3 in 4 agents in China and India report seeing an increase in policy sales over the past 3 years, reported growth is lower in the US and Germany

Methodology. We carried out 850 online and telephone interviews with life insurance agents from the US (200), China (200), India (250) and Germany (200) from March to May 2018. The sample consists of a diverse group of agents from different age groups, with differing amounts of professional experience, working for a range of insurers.

Team behind the analysts.

AlphaWise Primary Research gathers alternative data and generates unique insights via an innovative analytical and visualization platform.

Distribution for the life insurance industry is on the cusp of substantial change, following nearly a century of limited innovation in the distributors' role in the value chain. The agency channel in particular - which is of critical importance to the industry globally - requires a step change in productivity and efficiency to remain sustainable.

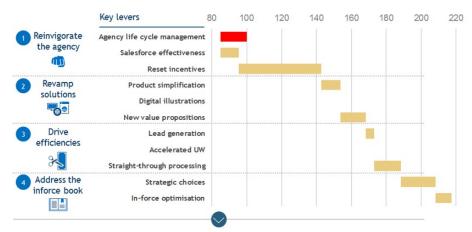
The economics of the industry are severely challenged, with distribution taking a disproportionate share of the overall value from the life insurance ecosystem, while policyholders have been experiencing lower investment returns and shareholders have been achieving dwindling returns on economic capital.

We have identified four key levers, which we believe have the potential to transform the distribution in life insurance: 1. reinvigorating the agency; 2. revamping solutions; 3. driving efficiencies; 4. addressing the in-force book of business.

Our modeling suggests that applying all four levers together has the potential to more than double shareholder value for a multi-line German insurer operating an agency force - see Exhibit 1.

Exhibit 1:

Our modelling suggests a significant value uplift is possible in Germany by comprehensively addressing distribution, products, efficiency and the in-force book (business as usual case = 100)



Significant potential impact: 20% reduction in commission costs, 15-25% reduction in addressable admin expenses in addition to growth and capital release opportunities

Source: Morgan Stanley Research, Boston Consulting Group

Even in a market like the United States - where there is a more complex distribution environment - we see the potential to increase operating margins by more than 75%, before considering opportunities on the in-force block, see Exhibit 2.



Exhibit 2:Significant margin uplift can be achieved by players reinventing their distribution in the United States

		Key levers	Impact			+75% (perating r	margin	
1	Reinvigorate	Agent life cycle management	14 bps	Operating Margin (%)			nproveme		
	the agency	Salesforce effectiveness	33 bps	12 ¬				2.2%	11.4%
	400	Redefine incentives	154 bps						
2	Revamp	Product simplification	41 bps	9 -		2.0%	0.6%		
	solutions	Digital illustrations	10 bps						
		New value propositions	12 bps	6 -	6.5%				
3	Drive	Lead generation	31 bps						
	efficiencies	Accelerated UW	21 bps						
	3	STP and journey redesign	172 bps	3 -					
4	Address the in- force book	Add savings, growth and o		0					
	III	` release opportunitie:	rs .		Base case	Reinvigorate the agency	Revamp solutions	Drive efficiencies	Pro- forma
						1	2	3	

Source: Morgan Stanley Research, Boston Consulting Group

While there is no simple solution to this significant challenge, we believe that global insurers can learn from the data, technology, and innovation-driven productivity successes of Chinese insurers.

Of course, making such a transformational change is much easier said than done. Agents have been historically resistant to change, the level of technology and innovation needed is significant, and some carriers may still feel that there is more value in the in-force than in the new business. That said, we see an opportunity for those that respond quickly: regulation is moving fast, digital players from adjacencies continue to look for ways to disrupt the insurance industry, and traditional competitive pressure continues to increase.

A note on definitions: throughout this report the terms 'agents' and 'agency' — which have different meaning depending on the market/global region — are used, so that the observations and conclusions can be relevant to any form of human-to-human distribution — allowing for the obvious differences between proprietary and third party distribution. From a product perspective, 'life' is intended to capture a broad range of protection, savings, retirement and other investment products.

Improving overall value delivered and creating 'wins' for all stakeholders

We believe that distribution is taking a disproportionate share of the overall value from the life insurance ecosystem, while policyholders do not seem to be getting sufficient value and shareholders have been achieving dwindling returns on economic capital (due to declining investment returns and growing capital requirements).

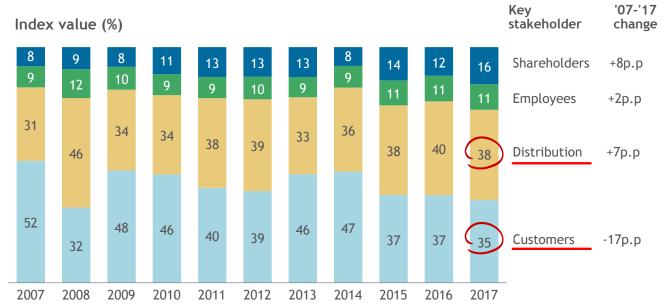
As the example in <u>Exhibit 3</u> from Germany shows, distribution is taking the largest share of the value created (38%), ahead of customers with 35%, the stakeholder with the largest drop in value captured since 2007.

In our view, a fundamental overhaul in distribution (particularly in the agency channel) is necessary, and it can create mutual wins for all stakeholders.



Exhibit 3:

Distribution has been taking a growing share of returns at the expense of customers - in our view, this is unsustainable. (Example is based on analysis of German traditional life business)



Source: Company data, Morgan Stanley Research, Boston Consulting Group

Exhibit 4:

Potential impact across different stakeholders

Stakeholders Main benefits from "reinventing agency distribution" · Increased value captured - driven by lower distribution costs and improved value propositions · Better outcomes in terms of health, wealth, and wellness with the pivot towards holistic solutions · Improved customer experience, made simpler, faster and more convenient Agents • Improved agent experience - supported with tools to make them more effective and efficient · Broader set of solutions with more compelling value propositions to offer to their customers • Improved total compensation (despite the lower per unit commission rate) · Reinvigorated career paths Regulators · Improved business conduct with the move from "product push" to "holistic solutions and advice" Increased transparency for the industry Ш · Potential reduction in the protection gap with a reinvigorated agency and revamped solutions Shareholders • Stronger returns enabled by improved distribution economics • Enhanced growth prospects with revamped solutions • Improved capital allocation and risk profile driven by inforce book measures **(9**) Potential for a stock market re-rating in the long-run

Source: Morgan Stanley Research, Boston Consulting Group



The context:

Life insurers in US, Europe and Asia are facing multiple challenges including:

- Interest rates: lower for longer interest rates which, together with a steady shift towards more 'economic' solvency capital regulation (e.g., Solvency 2 in Europe, C-ROSS in China, Swiss Solvency Test), are putting significant pressure on shareholder returns
- Regulation: increased focus on conduct regulation is driving an irreversible trend towards greater price transparency and lower commissions (e.g., Retail Distribution Review in the UK and SEC/ NAIC in the US)
- Talent: agent forces, particularly in developed markets are aging (as evidenced by our survey, see <u>Exhibit</u>
 below), high churn remains a challenge, and the industry is struggling to attract talent (e.g., millennials are typically not interested in pursuing a career in insurance)
- Product: traditional life insurance value propositions are not resonating with customers (e.g., individual life insurance ownership is at historical lows in the US), majority of insurers are focused on product manufacturing as opposed to creating holistic solutions for customers, based on their evolving needs
- Efficiencies: the sales processes remain "old-school," cumbersome and inconsistent with the fast evolving

- customer expectations that are now being set by digital leaders. Multiple legacy systems and paper-based, manual processes make it even more challenging for insurers to be nimble in reacting to a rapidly evolving landscape
- In-force book of business: particularly in mature markets, some insurers are also having to address challenges associated with large and sometimes underperforming in-force blocks of business. In others, new business is being written at a loss in order to sustain existing legacy cost structures

Agency has been declining from its current position in several markets:

- Agency (particularly affiliated or tied agency) seems to be the channel facing the most challenges today as customer expectations are evolving, technology continues to change the playing field, and the channel has experienced nearly a century of very limited innovation
- While there are interesting cases of insurers taking very innovative approaches (e.g., Ping An), the majority of incumbents are only focusing on select levers to improve their agency channel, as opposed to having a clear roadmap to realize end-to-end transformation across the value chain

Exhibit 5:

Main challenges across the four countries studied

		China	Germany	India	U.S.
Agency	Aging agent force				
	High agent churn				
W	Challenging recruiting				
Product/	Focus on traditional life products	\bigcirc			
Solutions	Reliance on non-life products				
-	Limited focus on holistic solutions	\bigcirc			
Efficiencies	Lengthy and cumbersome process			•	
3	Limited use of new data and Al				
	Low / stagnant productivity				
In-force books	Large inforce blocks				
	Increased focus on run-off				

Significant challenge Moderate challenge No challenge

Source: AlphaWise, Morgan Stanley Research, Boston Consulting Group



Bright future for a reinvented agency channel

Despite the multiplicity of challenges faced by the traditional agency, some form of human-to-human distribution will continue to be valued, we believe, as life insurance products are often complex and consumers still value human relationships. That said, there is a growing appetite for hybrid approaches, in which technology (digital, data & analytics, etc.) can significantly improve the overall experience, change the role of the agents, and help deliver better value for all stakeholders.

Technology (digital, data & analytics, etc.) is becoming increasingly essential for insurers to provide a superior customer and agent experience, and furthermore is key to changing the unsustainable economics of life insurance distribution. The role of the agent will have to evolve as the agent-customer experience becomes more and more digitally enabled, and long-standing manufacturing and distribution silos start to dissolve as carriers increasingly look to enable their distribution partners.

While digital direct sales will continue to increase over the next few years, it will likely continue to be more relevant for simpler and more easily underwritten products, such as term insurance, unit-linked (variable) savings contracts and personal lines insurance. Even if growing exponentially, the volume of digital direct sales will continue to be dwarfed by traditional channels, hence the need for insurers to reinvent and reinvigorate the agency channel.

"Incremental versus radical change in agency is the discussion to have."

European insurer

This report looks in detail at four major markets globally – two developed markets (Germany and United States) and two emerging markets (China and India). We have examined how the underlying economics of agency are evolving, identified foundational levers that can generate meaningful impact, and assessed different strategic options to put the agency channel on a long-term sustainable footing.

This report is informed by more than 50 interviews with senior insurance executives globally, an AlphaWise survey of 850 agents in the four countries, and a proprietary financial model to capture the interplay between the distribution, new business and in-force book economics for Germany. — see **Exhibit 6**.

Exhibit 6:

Building blocks of our research



Source: Morgan Stanley Research, Boston Consulting Group

The Chinese market — where insurers have been able to increase agency productivity despite a very rapid increase in the overall size of the agency force — offers interesting lessons for insurers globally. It is important to acknowledge, however, that many Chinese insurers are operating in a higher growth environment and are less constrained by legacy technologies and in-force blocks than most developed market insurers.

The future of agency – an agenda for change

Improving agency productivity and driving efficiencies is an imperative to address current unsuitable industry economics and create value for all stakeholders, in our view. The global trends towards price transparency, more customer friendly regulation (e.g., more strict suitability standards), and lower product cost loadings means that we believe current compensation levels per product sale (largely borne by consumers and carriers) are unsustainable in the long term.

However, there are substantial value creation opportunities and associated valuation uplift for insurers that can reinvent their agencies by focusing on the core elements outlined in **Exhibit 7** below. They have the potential to generate significant impact: ~10-20% reduction in acquisition costs, ~20-30% reduction of addressable administrative expenses in addition to growth (incremental premium and fee-based income) and capital release opportunities (mostly from actions in the in-force book of business).



Exhibit 7:

Key levers for life insurance agency reinvention

	Key levers	Description
1 Reinvigorate the agency	Agent life cycle management	Drive efficiency and effectiveness in key processes around the agent life cycle, including recruiting, licensing, on boarding, promotion, retention (address regrettable churn) to create a more vibrant and productive channel
	Salesforce effectiveness	Enhance performance management system (among other things, by leveraging technology and tools such as agent workflow management), double down on agent training, proactively address underperformance
	Redefine incentives	Reduce per unit sales compensation (but offset the reduction with increased productivity through value-added services that allow agents to be more productive, with increasing levels of overall compensation), re-align overall agent compensation to reinforce the focus on profitable growth
2 Revamp solutions	Product simplification	Design simpler and more customer-centric solutions, ensure that value propositions are more intuitive to the average customer, enable further personalization and ensure that the overall experience is more customer centric
	Digital illustrations	Help agents more clearly articulate the value proposition of different solutions, facilitate comparisons across different solutions and ultimately facilitated the customer's decision
	New value propositions	Create new propositions around health, wealth, wellness, etc. to more holistically address customer evolving customer needs
3 Drive efficiencies	Lead generation	Empower distributors by using data and analytics to not only generate promising and well-timed leads, but also qualify them based on customers' propensity to buy/qualify in order to significantly reduce acquisition costs and increase agent productivity
	Accelerated UW	Make the underwriting process simpler, faster and less invasive to not only reduce operating costs (e.g., medical exam expenses), but also improve the overall customer experience and increase conversion rates
	Straight-through-processing and journey redesign	Modernize, streamline and automate front-middle-back office processes; deploy tools like e- application, e-delivery, and case tracking capabilities to reduce acquisition and administrative expenses while improving the overall customer & advisor experiences
4 Address the inforce book	Strategic choices assessment	Evaluate a broad range of strategic options including whether to maintain the inforce books open to new business, place the business into runoff, divest underperforming books, acquire books of business to drive scale (become an inforce book aggregator)
	Inforce optimization	Extract incremental value from the inforce via cost management (e.g., optimize processes, IT landscape, organizational structure), customer management (e.g., lapses, up-sell and cross-sell), financial effectiveness (e.g., reinsurance) and asset management (e.g., ALM, investments)
Source: Morgan Stanley Research	ch. Boston Consulting Group	

Source: Morgan Stanley Research, Boston Consulting Group

For emerging market insurers, we believe that the strategic focus should largely be on the distribution channel itself. However, for developed markets insurers, the strategic focus requires a more holistic view of the problem, one that accounts for the dynamics and economics of new business and their in-force blocks as in certain instances new business is being written at a loss in order to sustain existing legacy cost structures.

Despite the challenges faced by life insurance agency, some form of human-to-human distribution will remain valuable, as life insurance products are often complex, customers want advice when it comes to complex financial decisions, and still place significant value in human connection. The winning model in our view appears to be a hybrid one, in which technology (digital, data & analytics, etc.) is leveraged to enable more effective and efficient human-to-human interactions and improve the overall client and agent experience, in order to deliver better economic outcomes for all stakeholders.

A comprehensive view is required for the industry to reinvent agency (and distribution more broadly). We propose a four-part framework with the core foundational elements required for insurers to address these challenges: agency reinvigoration, solutions revamp, efficiencies and addressing the in-force book.

1. Reinvigorate the agency

1.1. Agent life cycle management - drive efficiency and effectiveness in key processes around the agent life cycle, including recruiting, licensing, on boarding, promotion, retention (address regrettable churn) to create a more vibrant and productive channel

Insurers need to start by significantly improving their agent life cycle management and addressing some secular challenges in effectively recruiting, on-boarding and retaining agents, while managing expenses. In China, at current productivity and attrition levels, the



industry would need to recruit additional an 89 million agents between now and 2030 to reach the government's aspirations for the size of the insurance sector relative to the broader economy.

To make matters even more challenging, in many geographies the current agency force is aging and the industry overall is experiencing increasing levels of difficulty recruiting the next generation of talent. For example, in the US the average age of agents is ~56 years old according to LIMRA and recruiting the next generation of agents, is proving to be very challenging, since only 4% of millennials are interested in a career in insurance.

"Our greatest challenge is to make agent's value proposition stronger and make them more productive." **Asian insurer**

AIA (in China) is a good example of an insurer that has successfully updated its recruiting process. In 2010, AIA introduced its Premier Agency initiative and interactive Point of Sale (iPoS) system. AIA increased the focus on college graduates with at least a year of sales experience; executed a 90-day on-boarding program for new recruits; ensured that more skilled agents were identified and enrolled in advanced training (including soft skills); and created a program to train aspiring leaders to prepare them for managerial positions.

The investment appears to have paid-off: in 2017 AIA became the first company to have achieved the largest number of Million Dollar Round Table (MDRT) members for three consecutive years - with 8,324 AIA agents and agency leaders registered as MDRT members, a 46% increase relative to 2016 and 460% growth since 2010.

Similarly, a leading life insurer in India has recently redesigned its recruiting and on-boarding process leveraging advanced analytics. It has identified a set of characteristics in candidates that seem to be predictive of higher productivity as an agent, and has customized its value proposition to become more appealing to this particular recruiting pool. This targeted action has led to an uptake in recruiting and on boarding of preferred candidates.

1.2. Sales force effectiveness – enhance performance management system (among other tactics, by leveraging technology and tools such as agent workflow management), double down on agent training, proactively address underperformance

In our view, insurers should implement a performance management system that can identify top performing agents within their workforce to not only reward strong performance, but also provide specialized support to maximize their potential. Pruning the agency force (addressing underperformers that contribute to the high overall cost of the channel) is of equal importance, as overall production tends to be heavily skewed towards the top 20% performers across markets.

We believe insurers need to segment their agents based on performance and build a more nimble support function to help them take their performance to the next level: they should be given additional leads, targeted incremental training, and additional administrative support relative to average agents. In addition, the top performing segment can also be an excellent testing ground for support services the carrier might roll out to the wider agent population.

Insurers and intermediaries in general (e.g., independent agents, brokers, managing general agents) need to increase their focus on training and identify ways to deliver it in a more efficient and personalized manner, and technology has significantly increased the art of the possible in this regard. Technology can allow the traditional one-month, in-person trainings to be replaced by targeted training recommendations based upon agents' performance (i.e. specific areas for development), and availability. For example, once agents have actually interacted with clients in the field, they could access targeted training videos focused on various scenarios they have encountered. This way the company is delivering training based on what the agent specifically needs, instead of offering a one-size fits all approach.

Ping An leverages technology to deliver on-demand, personalized trainings for its agents (additional details in the example below). The insurer also deploys trainers who are encouraged to spend significant time interacting with agents and building specialized expertise. Finally, agents also have mentors assigned to them for long-term collaboration beyond the onboarding and entry-level trainings. Training has been at the core of Ping An model, enabling the company to increase productivity despite their above-industry growth in new agents.

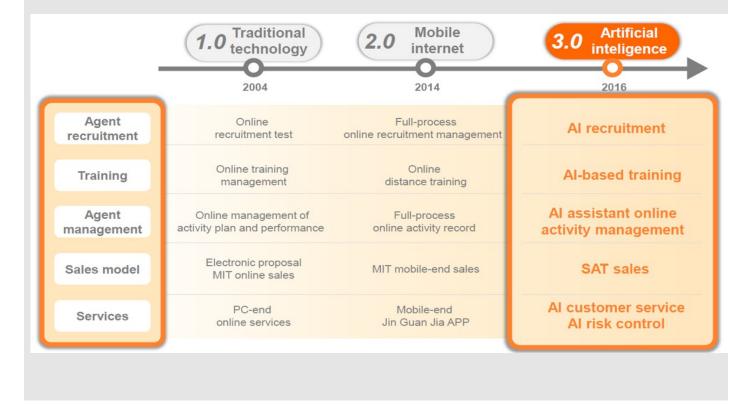


Example: Ping An Life – Leveraging Technology to reinvigorate the agency

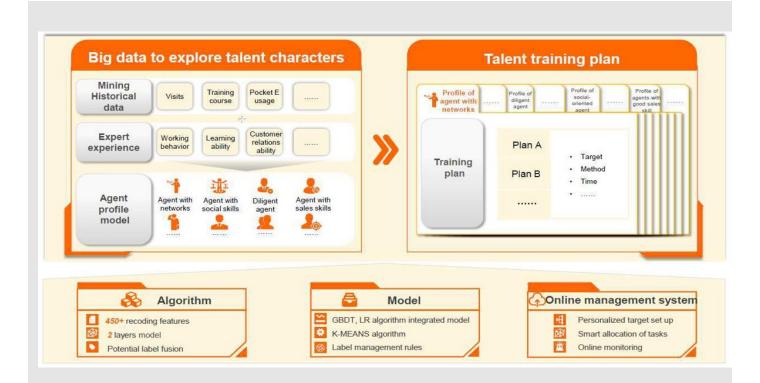
Ping An is a strong example of an insurer that has been leveraging technology to address many of the current agency challenges, including recruiting, training, performance management, and servicing model. The company has moved towards a technology-assisted model that is proving to be extremely effective.

Some recent accomplishments include: 310 million sheets of paper saved annually by preparing electronic proposals and delivering insurance policies electronically; massive reduction in average underwriting time (i.e. from application to payment) from 5 days to 15 minutes; 70% reduction in manpower by creating a "smart customer service model"; 32% growth in premium per agent from 2014 to 2016.

- Agent recruitment: redesigned the recruiting process by leveraging data & analytics and AI training to improve the screening, optimize resource allocation and refine agency career paths
- Training: started to leverage AI to accelerate agent skill development "high performing agent replication" by using big data to build high-performing agents profile see exhibit below. These actions have shortened the time necessary to train agents into becoming high performers from 36 to 15 months





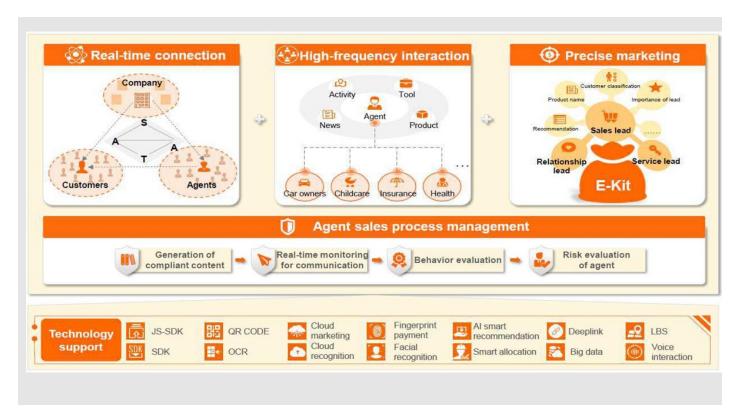


- Agent management: developed a sophisticated workflow management system powered by AI (i.e. an AI assistant) that helps agents prioritize their tasks while providing them sales assistance. Several capabilities are under development, but they currently include a task manager and a smart Q&A to support agents in their customer interactions
- Sales model: built what they describe as SAT (described in further detail in the China section), which enables real time connection, high frequency interaction, precise marketing and agent process management

- Services: created a 24h online virtual human service model to balance efficiency and effectiveness

Source: Ping An Life investor presentation: Technology Empowers PAL (2018.10.12); Morgan Stanley Research, Boston Consulting Group





1.3. Redefine incentives – reduce per unit sales compensation (but offset the reduction with increased productivity through value-added services that enable agents to be more productive, with increasing levels of overall compensation), realign overall agent compensation to rein-force the focus on profitable growth

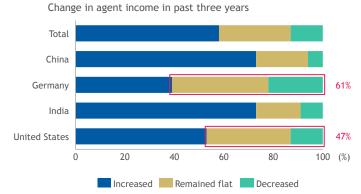
Our AlphaWise survey data suggests that only 70% of agents in Germany would recommend agency as a career vs. 97% of agents in China. The low status of the profession, excessive workload, dissatisfaction with income, and limited professional opportunities are the leading reasons for agents not being satisfied with the career. Earnings trajectory (the leading reason for agents not recommending a career in the US and third reason for dissatisfaction in Germany) is a key factor — \sim 60% of agents in Germany and \sim 50% of agents in the US reported flat or shrinking income over the past three years.

In our view, total individual agent compensation needs to increase in order to motivate existing high performers, but more importantly, incentives need to be redefined to make the career attractive and bring new, young talent into the industry. Mature markets in particular have many producers "milking" their books of business, as

opposed to "hunting" new clients. Given the pressures on product margins, we believe that any agent compensation increases should be paid for by productivity improvements (i.e. increase in sales per agent).

Exhibit 8:

Change in agent income over the past three years - while incomes for emerging market agents are increasing, those in developed markets are more stagnant



Source: AlphaWise, Morgan Stanley Research, Boston Consulting Group



"Regulation at some point will put a brake on commissions; this is certain to happen. We force agents now to sell pure advisory sessions against a fee to a certain share of their customer base."

European insurer

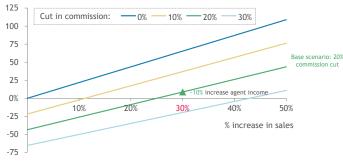
We see room for an increase in overall agent income despite a material 20% cut in per unit commissions if agents become significantly more productive (e.g., increasing sales by ~30%).

Exhibit 9 below looks at the modelled impact of commission rates per product and agent productivity (i.e. sales per agent) on the total income (post out of pocket expenses) for a typical German agent.

Exhibit 9:

We think a \sim 10% increase in agent income (post out-of-pocket expenses) is possible assuming our base case of 20% lower commission rates, but 30% higher sales (fuelled by technology)...

% change in agent income



Source: Morgan Stanley Research, Boston Consulting Group

Our base case scenario shows an increase of \sim 10% in post-expenses income for an agent that is able to grow unit sales by 30% despite a 20% commission rate cut.

However, we see opportunities for insurers to actively deploy technology in order to reduce agents' out-of-pocket expenses - for example, the application of straight through processing could reduce the cost associated with administrative support.

As we show in **Exhibit 10**, if these out-of-pocket expenses were reduced by 20% then the agents' take home income could increase by \sim 27% for a 30% increase in sales despite the 20% cut in commissions.

Of course, making this shift is much easier said than done, as agencies may not be willing to give up control of certain aspects of the servicing process.

Exhibit 10:

...however, we think there is the potential for agents' take home incomes to increase by $\sim\!\!27\%$ if out-of-pocket expenses were cut by 20%





Source: Morgan Stanley Research, Boston Consulting Group

2. Revamp solutions

2.1. Product simplification – design simpler and more customercentric solutions, ensure that value propositions are more intuitive to the average customer, enable further personalization and ensure that the overall experience is more customer centric

Historically, many insurers have considered agents their primary customers, which has in our view resulted in a product suite that is overly complex, with value propositions that do not resonate with customers. This only reinforces the notion that insurance is "sold not bought". In fact, many producers prefer complex products to reinforce their value proposition in assisting end customers in defining solutions to their financial needs.

Business models offering lower cost, simplified products and higher product density per customer would be well positioned to succeed we believe. These models have the potential to deliver more value to all stakeholders: improved outcomes for policyholders; lower regulatory risk; higher agent income; etc. That said, the challenges that incumbents face in pivoting towards this direction should not be underestimated, as it requires, among other things, changing the way products are typically developed and how customer insights are incorporated into the process.

Holistic advisory and a broader portfolio of solutions is also crucial in the context of increasing fee compression observed in the wealth and asset management (partially driven by the growth of passive solutions). In the United States, for example, simpler, fee-based variable and fixed annuity products are emerging, which are a great way for insurers to tap into the rapidly growing registered investment advisers (RIAs) channel, which is closed to commission-paying prod-

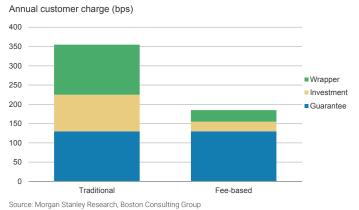


ucts. Fee-based variable annuities can be integrated into a wealth management platform (alongside 401(k), IRA, mutual funds, stocks and other assets) where the advisers typically receive a fee based on the value of the clients' overall portfolio.

Exhibit 11 shows how the shift towards passive investment solutions and away from commission has the potential to dramatically reduce the policyholders' cost of ownership for a variable annuity. Moving from commission allows a very substantial reduction in the wrapper (or 'Mortality And Expense') fee from an illustrative 130bps to 30bps per annum; however, the policyholder will need to pay the adviser outside of the product. Furthermore, while traditional VAs typically use active fund management (which might cost ~95bps p.a.), moving to passive could reduce this to ~20bps p.a. We show the cost of a guaranteed minimum withdrawal benefit (GMWB) rider as remaining the same at 130-140bps per annum. However, there is potential for this cost to reduce over time given the lower tail risk in the fee-based product. The lower fees could also allow for higher growth in customers account balances, enhancing the value delivered to customers.

Exhibit 11:

Variable annuity charges: Moving away from commissions and from active to passive investment management has the potential to dramatically reduce the cost of ownership for variable annuities (excluding the impact of any advice charge for the fee-based option)



2.2. Digital illustrations – help agents more clearly articulate the value proposition of different solutions, facilitate comparisons across different solutions and ultimately aid the customer's decision

Agents have the opportunity to increase the effectiveness of their customer interactions. Consumers remain very untrusting of the life insurance industry and its advisors (e.g., according to LIMRA, ~38% of consumers rate the honesty and ethical standards of the insurance salesperson as very low / low).

In the US, Assurance is an InsurTech startup offering a policy and sales concept visualization platform that allows agents to better communicate the value proposition of different life products with current and prospective customers. Several carriers are leveraging the startup's technology to create a client-friendly, digital sales illustration experience for wholesalers and agents. Distributors also use the technology to pull data from WinFlex (the multi-carrier software for standard data entry for multiple life insurers offered by Ebix) and display competing products' cash value buildup, surrender values, etc. The use of this application has lead to up to ~15% uplift in premium sales for Universal and Indexed Universal Life, ~30% efficiency savings, and a ~15% uplift in Term-to-Permanent insurance conversion for insurers that deploying this solution.

Exhibit 12:

Example of digital illustration solutions from an InsurTech startup



Developed a sales and data acceleration platform, Ensight™, that helps insurers and distributors capitalize on data, build digital illustrations and create customer-centric journeys

Interactive digital visualization Intelligent Quote ~15% sales uplift ~30% efficiency savings ~15% Term to Perm conversion uplift

Source: Morgan Stanley Research, Boston Consulting Group, Assurance App

2.3. New value propositions — create new propositions around health, wealth, wellness, etc. to more holistically address evolving customer needs

In our view, agents need to move from "pushing products" towards "providing holistic solutions." Agents will be increasingly embedded within a multi-channel, multi-product environment in which customers will choose when and how to interact with insurer. In practice, this means a greater degree of training and focus on meeting holistic customer needs. **Exhibit 13** (below) illustrates a potential view of the emerging agent ecosystem environment.



"Life-only offering in agency has no future." **European insurer**

In addition to traditional life insurance products, agents should be able to provide solutions covering a much broader range of customer needs. These new solutions do not have to be internally manufactured, but can be sourced externally or built as part of a broader ecosystem in partnership with insurers and solution providers from other industries.

Insurer offerings are already evolving to include savings, health, wellness and disease prevention across the globe. For example, AIA (through WeDoctor), AXA (Doctor@Hand) and Prudential plc (through Babylon) are offering policyholders innovative mobile

delivered health and wellness solutions with remote access to doctors through video calls. These solutions not only represent an additional earnings stream, but also offer a (currently) rare opportunity for the insurer to engage in high frequency, value-added interaction with customers.

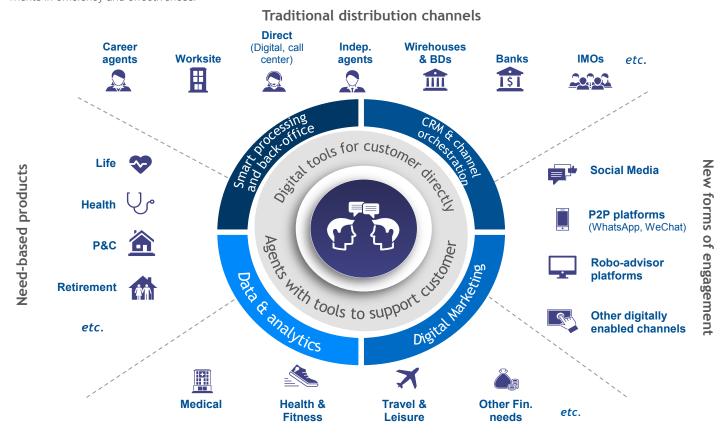
"Digitization is drastically increasing agent productivity.

Paperless, WeChat, etc. From 1-2 [sales] per month / agent to more than 100."

Asian insurer

Exhibit 13:

Emerging agent ecosystem - we see significant opportunities to broaden the product offering, in part through pursuing partnerships beyond insurance. Increasingly, we think that agents need to be embedded with other channels and supported with new digital capabilities to realize improvements in efficiency and effectiveness.



Partnerships beyond insurance

Source: Morgan Stanley Research, Boston Consulting Group



3. Drive efficiencies

3.1. Lead generation - empower distributors by using data and advanced analytics to not only generate promising and well-timed leads, but also qualify them based on customers' propensity to buy in order to significantly reduce acquisition costs and increase agent productivity

We believe that insurers could empower agents by using data and advanced analytics to not only generate leads (e.g., by identifying when current and prospective customers are going through certain life events – **Exhibit 14** includes a few examples), but also to qualify them based on customers' propensity to buy or enhance coverage. Such engines could help agents prioritize their prospecting efforts and suggest the "next best action/ offer" for existing customers. For example, providing proactive notification to an agent when a customer is eligible for conversion, suggesting relevant products or buy-up options (ideally with pre-approved offers) when consumers experiences a relevant life event, etc.

Exhibit 14:

Typical life events that trigger life insurance needs



Source: Morgan Stanley Research, Boston Consulting Group

"Lead management needs to become more aggressive – if the agent does not convert within 24 hours, central sales should be allowed to take the client."

European insurer

CPIC (in China) is an example of a player putting such technology to use with its new intelligent advisor product, Alfa Insurance. Alfa Insurance uses CPIC's data on 110 million customers and advanced data algorithms to identify coverage gaps and build personalized analyses of family insurance plans. CPIC introduced Alfa Insurance in September of 2017, and by the end of that year already had 4.4 million users of the service.

More specifically, Alfa Insurance collects customer data about family members, income, spending patterns, assets, liabilities, social security benefits, lifestyle, etc. and then uses machine learning to model the customer along five dimensions: support responsibility, diversity of family income sources, asset income, personal loan balances and social security benefits. It then generates personalized family insurance portfolio plans that are then shared with agents.

Many insurers have been significantly expanding the amount of data (proprietary and from third party data sources) that they use to drive core activities like lead generation, underwriting, customer servicing, etc. **Exhibit 15** shows a few examples of key elements that insurers are trying to include in their data architecture.

Exhibit 15:

Examples of non-traditional data sources being leveraged by insurers in the US

Insurers are leveraging a variety of data sources to support lead generation & risk selection processes



Traditional

- Application data
- Other agent collected data/ observations
- Tele-interview data
- Data from MIB group
- Motor Vehicle Record (MVR)
- Prescription Drug History



Financial/Credit

- · Length of Credit History
- Amounts Owed Credit Mix
- Credit Use
- Bankruptcy
- Foreclosure
- Eviction
- Income / current wealth



Public Records

- · Property: ownership, tax appraisal
- Recorded documents: by grantor, guarantee
- Genealogy records:
- births, marriages, deaths · Criminal records, court
- dockets, inmate records · Meeting minutes from public forums
- · Public safety information
- Voter/ election info.



Internal Data

- · Property / Casualty products owned
- Duration / persistency
- Agent production
- · Agent tenure · Agent status
- Total household premium placed with company



Behavior/ market data

- · Occupation, education · Home, purchase price, mortgage, lender
- Household composition
- Number/age of children
- Pet owner
- · Online shopper
- Direct mail responder
- · Hypertension, cardiovascular or respiratory disease
- Runner/downhill skier
- Sports enthusiast
- Crafts/hobbies

Traditional Non-traditional



3.2. Accelerated underwriting – making the underwriting process simpler, faster and less invasive to not only reduce operating costs (e.g., medical exam expenses), but also improve the overall customer experience and increase conversion rates

Automated and accelerated underwriting processes are key not only in terms of reducing costs, but also in increasing the amount of time that agents can spend with clients outside of administrative tasks, driving higher conversion rates.

Advanced data analytics can allow insurers to assess risk without requiring some consumers to submit to blood/urine tests, which have somewhat similar accuracy, by leveraging a broad range of third party data sources (e.g., the traditional application data, financial and credit history, broader public records, social media activity, and other internal data on the agent and prospective customer). Furthermore, eliminating the blood work/ medical requirements for healthy applicants should not only reduce the costs of the application process, but also significantly improve sales.

There is already evidence of insurers moving in this direction: ~50% of US carriers have already deployed some type of automated/simplified/predictive underwriting platforms (mostly for select term products), while another 41% plan to implement this in the coming years according to LIMRA. Unit cost and cycle time can be significantly reduced, with somewhat limited impact in adverse mortality as highlighted in Exhibit 16.

Most insurers are investing in some form of automated/accelerated underwriting: e.g., in the US, Principal Financial has eliminated lab testing for ~50-60% of preferred applicants who qualify based on age and personal history; John Hancock is offering 'SmartProtect Term with Vitality' with underwriting decisions as fast as two days; while Legal & General enables customers to upload selfies and receive instant quotes. That said, most of the activity is still constrained to simple products (term insurance) and cases with no impairments.

In the United States in particular, as the adoption of Electronic Health Records (EHR) continues to increase, we would also expect the number of applicants who will qualify for fully underwriting products using accelerated underwriting techniques to increase.

3.3. Straight-through-processing (STP) and journey redesign – modernize, streamline and automate front-middle-back office processes; deploy tools like e-application, e-delivery, and case tracking capabilities to reduce acquisition and administrative expenses while improving the overall customer & advisor experiences

Several processes supporting the distribution of life insurance products have the potential to be digitally transformed in order to drive efficiencies and effectiveness gains. We see opportunities to streamline the support provided for agents and to reduce the frictional costs of administration. Specific areas include the use of e-applications, e-submissions, and case tracking capabilities.

Exhibit 16:

Innovation in underwriting is increasing in the US; however, we still see further opportunities for upside

Traditional

Underwriting

Underwriter-reliant

High touch

- · Many requirements
- Paramedical exam "for all"
- Unit cost of ~\$450
- 25-45 day cycle time

Underwriting Automation of

Automated

- traditional process
- Lower touch
- Marginal decrease in average cycle time
- Marginal decreases in average cost

Predictive Analytics

- Complimentary to traditional
- · Leverage traditional and non-traditional data sources
- Identifies healthiest applicants (~30%+)
- Radically lower unit cost (<\$50)
- 0-3 day cycle time
- Improved placement rates (+5-7 points); customer experience
- Negligible adverse mortality impact

Electronic

Health Records

- Full historical health record
- · Potential to expand to ~75%+ of applicants

Evolving Future Capabilities

- Genomics, genetic understanding
- BioAge markers

Data & Analytics - reliant

- Prediction of expected mortality; algorithmic breeding
- Radical impact to cost, purchase experience, end customer value propositions?

Source: Morgan Stanley Research, Boston Consulting Group



For example, according to Celent, paper applications have a ~70% rate of NIGO (not in good order), while the rates for e-applications are around 5%. E-applications can reduce the costs per application from US\$312 to US\$237 and the average cycle time by ~55% (to 17 days). Further opportunity exists to reduce the cycle to minutes rather than days by using this proven technology.

Another opportunity is the use of case tracking capabilities to allow agents (and consumers) know exactly where they stand regarding the status of their application process, increasing the transparency of the overall process and eliminating the time and cost associated with periods in which the application is on hold, waiting for someone's action.

Agent workflow management and CRM (client relationship management) tools, including scheduling, pipeline tracking and performance monitoring tools, also have the potential to improve productivity and enhance the agent and end-customer experience. Although the technology has been available for many years, overall industry adoption has been lower than expected.

4. Address the in-force book of business

Strategic choices assessment – evaluate a broad range of strategic options including whether to maintain the in-force books open to new business, place the business into runoff, divest underperforming books, acquire books of business to drive scale (become an in-force book aggregator).

A significant challenge for investors and insurance executives (particularly in developed markets) is to determine where value is being created (or destroyed), which requires them to isolate the economics of the in-force book, new business and distribution. In certain instances, we believe that the new business is written at a loss in order to sustain the in-force book and distribution structures. Hence the need for decisions around reinventing agency distribution to account for the in-force book dynamics.

For many insurers, their in-force book comprises products that have become less attractive in a lower interest rate and higher capital requirement environment. This has prompted many insurers who have a material proportion of their risk capital tied up in low return, perhaps non-strategic products to evaluate their options to address this challenge.

Broadly speaking, we believe that insurers have four main options when it comes to their in-force books of business – also illustrated in **Exhibit 17**:

- Continue writing new business (i.e. business as usual)
- Close the in-force to new business (i.e. put the business into runoff)
- Separate the in-force from the new business operations (i.e. ensure management teams have clear mandates to drive value from the two components)
- Pursue transactions to sell specific books of business, aggregate in-force books, outsource their operations, etc.

Exhibit 17:

Core in-force book strategic options



Source: Morgan Stanley Research, Boston Consulting Group

Insurers globally are increasingly making strategic decisions when it comes to their in-force books of business. For example, MetLife decided to exit the individual life business in the US by spinning off its retail operations into Brighthouse Financial and selling its retail distribution to MassMutual. Similarly, Voya decided to stop selling individual life insurance, putting its business into runoff after selling the majority of its individual annuities business to Private Equity investors. Generali in Germany has sold most of its traditional life business (Generali Leben). Manulife (and John Hancock) has ring fenced certain closed blocks of business to drive further efficiencies.

Such strategic decisions have the potential to significantly change the economics of insurers by, for example, eliminating costly distribution structures, releasing capital (that either can be redeployed in higher return opportunities or returned to shareholders), changing the risk profile of the business, etc.



Example: MetLife exiting the US individual life business (Run-Off):

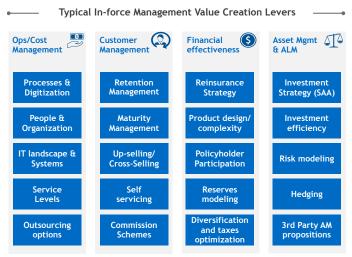
MetLife had one of the largest career agency forces among the publicly traded companies. The company announced its plans to exit the retail life and annuity space at the beginning of 2016. MetLife divested of its career agency platform in a transaction with MassMutual and spun off the majority of its legacy portfolio and manufacturing operations into a new company, Brighthouse Financial. The remaining retail operations (namely the retail operations embedded within New York legal entities) remained with MetLife but were placed into run-off. Although it is still unclear if the decision unlocked significant shareholder value, the remaining company is targeting less capital-intensive businesses and is perceived to be substantially lower risk.

In-force optimization – extract incremental value from the in-force via cost management (e.g., optimize processes, IT landscape, organizational structure), customer management (e.g., lapses, up-sell and cross-sell), financial effectiveness (e.g., reinsurance) and asset management (e.g., ALM, investments)

Even when insurers place legacy blocks into run-off, managing the unit costs becomes problematic over time as they ultimately become subscale. Several levers can be activated to improve the performance of in-force books. **Exhibit 18** shows the main levers across four different dimensions: operations and cost management, customer management, financial effectiveness, and asset management and asset & liability management.

Exhibit 18:

Many levers can be pulled by carriers to maximize the value of their in-force book of business



Source: Morgan Stanley Research, Boston Consulting Group

In our view, there are substantial value creation opportunities and associated valuation uplift for insurers that can reinvent their agencies by focusing on the core elements described above.

As outlined in **Exhibit 19**, we believe they have the potential to generate significant impact in terms of growth, expense reduction and capital releases.



Exhibit 19:

Potential impact of key agency reinvention levers

Agent life cycle management	^ / -	_		
	_ /	•	_	-
Salesforce effectiveness	1 /	•	-	-
Redefine incentives	1 /	•	_	_
Product simplification	1		•	•
Digital illustrations	•	•	-	_
New value propositions	•	_	_	•
Lead generation	1 /	•		_
Accelerated UW	^ _	•	•	
STP and journey redesign	1 /	-	•	-
Strategic choices assessment	+	+	+	•
Inforce optimization	_	♣ / -	•	↓ /
,	Digital illustrations New value propositions Lead generation Accelerated UW STP and journey redesign Strategic choices assessment	Digital illustrations New value propositions Lead generation Accelerated UW STP and journey redesign Strategic choices assessment	Digital illustrations New value propositions Lead generation Accelerated UW STP and journey redesign Strategic choices assessment	Digital illustrations New value propositions Lead generation Accelerated UW STP and journey redesign Strategic choices assessment

Significant potential impact: 10-20% in acquisition costs, 20-30% of addressable admin expenses in addition to growth and capital release opportunities

Source: Morgan Stanley Research, Boston Consulting Group

Key takeaways

Insurers are already making strategic moves when it comes to life insurance distribution - however, we believe that substantial change is still to come. What is less clear is whether a major disruptive force will emerge from outside the insurance industry.

The highly regulated nature of the industry and its capital intensity make it less vulnerable to major disruption from a product manufacturing perspective (i.e. very high barriers to entry), but may not prevent others from revolutionizing life insurance distribution in the long term, perhaps as part of broader health, wealth and wellness planning and advisory value propositions.

Of course, making such a transformational change is much easier said than done. Agents have been historically resistant to change, the level of technology and innovation needed is significant, and some insurers may still feel that there is more value in the in-force than in the new business. That said we believe that external pressures continue to build: regulation is moving fast and digital players from adjacencies continue to get closer, while traditional players are likely to compete harder given the challenges elsewhere.



Exhibit 20:

Some of the key features of an "agency of the future"

The Agency of the future...



.. is fully automated for both the agent and customer



... leverage the agents for what they can do best



... offer a rich solutions organized across life needs



... is part a of broader ecosystem

• Straight Through Processing has become table stakes: technology has advanced sufficiently to take giant leap for every step in the value chain

- InsurTech startups have shown possibilities, but incumbents have yet to break the conundrum at scale
- Agent ideally positioned to create awareness and provide advice, whereas other channels better suited for e.g., marketing and servicing
- Need to define the unique role of the agent, and then recruit incentivize coach to steer towards what a customer expects
- Role of the agents needs to be professionalized towards a real advisor role, not purely focusing on "pushing products"
- Opportunity to take adjacent spaces across a large spectrum of health, wealth, and wellness needs
- "You don't have to own the cow to sell the milk": although an agent might be ideally positioned to sell affiliated products ...
- ... insurance carriers do not have to manufacture all the solutions

Source: Morgan Stanley Research, Boston Consulting Group

While there is no "one size fits all" formula for success, in our view, the agency of the future will likely be fully automated, leverage agents for what they do best, offer much richer solutions across customers' lifetime, and be part of a broader ecosystem that addresses customer needs more holistically.

In our view, insurers that successfully take a holistic approach to the distribution challenges that the industry is facing will create significant value to all stakeholders. Insurers around the globe could consider leveraging the strategies and learnings from China, where meaningful agent productivity improvement has been achieved, despite the steep growth in agents over the past few years.

In the forthcoming sections we explore in more detail the particular challenges - and potential solutions - for the agency channel in Germany, the United States, China and India.



Germany – taking a holistic view

Our detailed proprietary financial modelling of a typical German multi-line insurer suggests that applying our four key agency reinvention levers has the potential to create substantial upside. We believe a comprehensive restructuring could potentially more than double shareholder value while also providing enhanced outcomes for policyholders and reduced regulatory risk.

Context

Insurance agents in Germany are typically full time, experienced and – by international standards – relatively well remunerated. Unusually, they are focused on selling P&C products, with the sale of life and savings contracts often an important secondary activity.

Despite the primary focus on P&C, agency remains the dominant channel for life sales – albeit one which has declined in importance over time, see **Exhibit 21**.

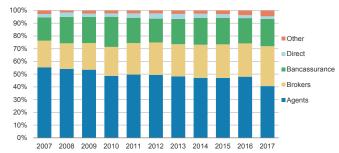
However, we believe this model is under significant pressure given:

 The steady decline in the sales of traditional life products in Germany – driven by a combination of less supply (as insurers react to low yields and the introduction of Solvency 2) and weak consumer demand (given the focus in the personal financial press on the opacity of the products and the weak financial strength of some players).

Exhibit 21:

Agency distribution of life insurance remains very important in Germany - despite a decline in recent years

Life Distribution Channels - Germany



Source: Company data, Morgan Stanley Research, Boston Consulting Group

 The structural pressure on commissions for relatively simple and transparent products such as P&C given a slow but inexorable shift to internet-enabled direct distribution.

Furthermore, from an insurers' perspective agency distribution costs are high and inflexible – especially when compared to more agile digital competitors.

Despite the pressures on the channel, our analysis suggests that agents have been taking an increasing share of returns.

As we illustrate in **Exhibit 22**, we estimate that sales (i.e. distribution) took 31% of returns in 2007. Distribution share had risen to 38% by 2017, while policyholder share fell to 35% (from 52%).

Returns to shareholders have been stabilised by reducing policy-holder payouts down towards the minimum contractual guaranteed level and by repricing of fees and cost loadings. The share taken by non-distribution employees (i.e. the insurers' staff) nudged up by 2 ppts.

Since 2007 the share taken by distributors has increased by 7 ppts while that taken by customers declined by 17 ppts.

In our view, this is unsustainable.

Exhibit 22:

Distribution has been taking a growing share of returns at the expense of customers (example based on analysis of German regulatory data for traditional life insurers)



Source: Company data, Morgan Stanley Research, Boston Consulting Group



Our proprietary financial modelling

We believe the complexity of the business in Germany helps to support the status quo, with the opacity of the numbers making it challenging for investors or indeed management to make a powerful case for change.

From an outsider's perspective, in our view, it is difficult to assess whether the current business model is covering its cost of capital – not least because of the cross subsidisation of new business from the back book.

Indeed, we believe that many insurers are writing new business at a loss in order to maintain the current distribution structure, as any change in approach would likely trigger substantial restructuring costs (for example, requiring unit costs to be recognised on a run-off basis and providing for closure and severance expenses).

In order to assess the most appropriate strategic response, we have built a proprietary financial model which clearly separates new business from the backbook but crucially, also considers the agent's income and expenses.

Exhibit 23 shows the structure of the model.

Our intention is to be able to quantify the impact of various strategic paths in order to help identify an optimal plan of action.

We have carefully calibrated our discounted cash flow model through detailed discussions with insurers and other industry participants. Our intention is not to replicate any particular insurer, rather to illustrate the relative pros and cons of different strategic choices for a typical insurer.

Applying the four key reinvention levers has the potential to create substantial value in Germany

We believe that applying our agency reinvention framework to a typical German traditional multi-line insurer has the potential to more than double its value – see **Exhibit 24**.

There are less ambitious and comprehensive restructuring options available; however, in the interests of clarity we have sought to illustrate what might be possible if an insurer chooses to take bold and decisive action.

Our analysis does not specifically include an allowance for execution risk – however, we are able to crudely adjust for this by adjusting the risk discount rate that we apply to the cash flows in our model.

Exhibit 23:

Simplified structure of our financial model for Germany-we have aimed to isolate the economics of the in-force block, new business and distribution.

Simplified structure of our financial model

(Isolating the impact of change on the back book, new business and agent economics)

Back book

- Regular premium/single premium
- Traditional, unitlinked, protection, P&C

Existing agent retention New agent recruitment New agent retention

Sales per agent



New business mix:

- Regular premium/ single premium
- Traditional, Unitlinked, protection, P&C
- New value propositions

Commission

Expense margin

- Loadings
- Expenses



Investment margin

Technical margin



Profit by product

Source: Morgan Stanley Research, Boston Consulting Group



Taking each element in turn:

1) Reinvigorate the agency - ~37% of the value uplift

We believe that many agents in Germany are naturally resistant to change and this has been a major factor in the lack of investment in the channel. In our view, insurers need to negotiate a 'grand bargain' of transformational investment in exchange for fundamental reform of the business model. Critical to this approach is making agency an attractive, secure and more lucrative career option; while resetting the economics of the products from both an insurer and policyholder perspective.

1.1 Agent life cycle management

Realistically, we accept that not all agents will sign up to our 'grand bargain'. We anticipate losing 10% of high performing agents (regretted departures) and 20% of those that are less productive. The negative value in **Exhibit 24** reflects the loss of sales from agents who leave as well as the cost associated with reinvigorating the agency force (which we assume as being 25bps of life reserves in the first 2 years as well as 3.5% of P&C premiums).

1.2 Sales force effectiveness

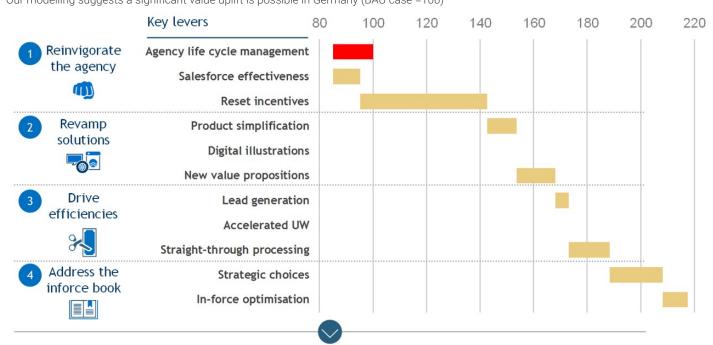
We propose more effective use of targeted training in order to address skills gaps and centralisation of non-essential administration in order to allow more time to be spent with customers.

We believe it is possible for agents to sell 30% more P&C products, although most likely at the expense of a modest deterioration in the loss ratio (~50 bps).

On the life side, given this is historically less of a focus for the channel, we believe it might be possible to increase sales by 40% of the favoured non-traditional life products (for example, unit-linked, health and protection). We consider the traditional life insurance business in a later section.

Our agent survey asked German agents what steps they would be prepared to take in order to secure the competitiveness of their host insurers - see **Exhibit 25** - improving skills and broadening the product range were the most favoured options.

Exhibit 24:Our modelling suggests a significant value uplift is possible in Germany (BAU case =100)



Significant potential impact: 10-20% in acquisition costs, 20-30% of addressable admin expenses in addition to growth and capital release opportunities

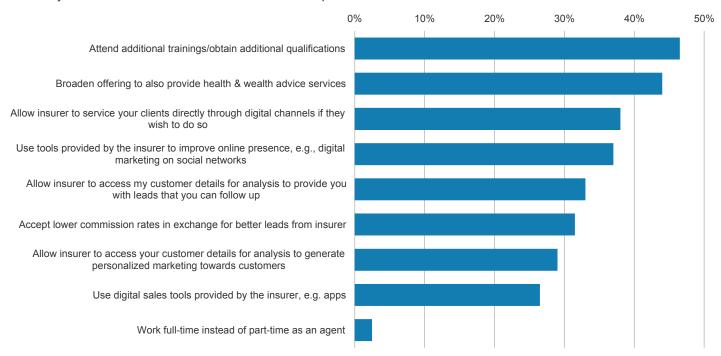
Source: Morgan Stanley Research, Boston Consulting Group



Exhibit 25:

Our AlphaWise survey results suggest that German agents would be willing to take a series of steps to help ensure their host insurer's competitiveness - including undertaking additional training and broadening the product range

Germany: Activities To Ensure Insurer Remains Competitive



 $Source: AlphaWise, Morgan\ Stanley\ Research, Boston\ Consulting\ Group$

1.3 Reset incentives

As discussed previously, we believe that materially reducing per product commissions – but with the provision that agent incomes have the opportunity to increase overall – is a very significant lever.

We have modelled a 20% reduction in unit commissions across the go-forward product portfolio, which is the single most impactful lever in boosting returns.

In our view, insurers are typically reluctant to make material changes to commission levels. However, we believe that if this is done as part of a broader package of reforms to the customer and agent propositions, it is achievable. The impact on the economics of the product can be very material.

We model for the entire benefit of the commission reduction to be passed to shareholders, however alternatively some of the savings could be reinvested in reducing other charges and making the products more competitive.

2) Revamp solutions - ~21% of the value uplift

We see a significant opportunity for agents in Germany to sell a refreshed product range, which moves away from traditional life products and instead focuses on a broader range of simpler, more transparent products, some of which might not be manufactured in-house.

In our view, agents need to have access to a product portfolio, which facilitates their transformation from sales 'push' to long-term solutions 'pull'.

2.1 Product simplification

We reflect the uplift in sales of unit-linked, protection and P&C products from the mix-shift (though for the sake of illustration, traditional life insurance sales are still flat at this point).



2.2 Digital illustrations

Although we have not ascribed a discrete value to the ability to better illustrate the product solutions, we believe this is a critical part of any rebuild of the agency proposition. Agents that are properly equipped with financial planning tools that allow a customer to put the product in the context of a needs based analysis are likely to be significantly more effective.

2.3 New value propositions

In addition to incentivising agents to sell the more profitable, highest return on capital products within the existing suite of offerings – for example; unit-linked, protection and P&C – we also see a role for broadening the available range.

These products do not need to be manufactured in-house, but can be sold on behalf of third-party manufacturers in exchange for a distribution fee. Examples here might include health insurance (including telemedicine), travel insurance, pet insurance. In fact any product which might be able to satisfy an unmet client need.

We assume that agents are able to sell an additional 20% of "new value proposition" contracts (by number) for which there is a distribution fee of €75, of which 50% goes to the insurer and 50% to the agent. Given there are likely to be few attributable expenses (assuming efficient digital 'no touch' administration), we model for this to flow directly through to the insurer's profit before tax.

3) Drive efficiencies - ~17% of the value uplift

Most insurers, especially in developed markets such as Germany, already keep close control of costs. However, we believe there is incremental potential that can be unlocked by applying state of the art technology capabilities to drive efficiency.

3.1 Lead generation

We believe that using digital techniques for lead generation (for example, referring on-line enquiries for advice to agents and monitoring the take-up) have the potential to materially reduce the size of non-commission acquisition expenses in addition to materially increasing the number of leads.

Here we model for a 10% reduction in the level of non-commission acquisition expenses for non-traditional business with a 125% cost to achieve spread evenly over the first 2 years.

3.2 Accelerated underwriting

We have not made specific allowance for underwriting efficiencies in Germany – however, it may well be relevant to some insurers.

3.3 Straight-through processing

In our view it should be possible to reduce administrative expenses by around 15% through the application of the latest techniques – we show the value uplift net of an assumed restructuring cost.

4) Address the in-force book - 25% of the value uplift

Given that most German insurers write profitable unit-linked, protection and P&C business we do not believe that a full run-off strategy is sensible or desirable. However, we do see a role for the run-off of traditional, capital intensive, life businesses for certain insurers — where it has the potential to reduce risk and release capital to redeploy into higher return opportunities.

Those funds that benefit from strong policyholder capital buffers (such as those run by Allianz Leben) are better off remaining open to new business.

4.1 Strategic choices assessment

We see significant benefits of closing the traditional life book including:

- Eliminating commission costs and removing new business support infrastructure (e.g., elements of agent support, new business processing, actuarial and pricing etc). In certain cases (not in our example) loss making new business will be avoided.
- The ability to more aggressively cut administrative expenses in a closed block situation.
- The release of solvency capital, in part as a response of being able
 to shift asset allocation and more closely match asset and liability
 cash flows, in part to reflect the reduced need to hold funds to
 maintain an excess solvency level supporting the marketing of
 new business.



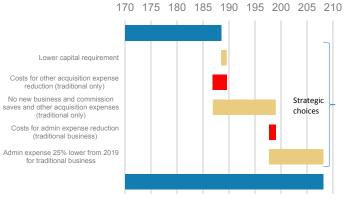
Exhibit 26 (which is an excerpt of the information shown in **Exhibit 24**) summarises the principal items.

We close the traditional life book to new business, resulting in no commissions paid to agents after the first year (we assume 1 year of normal commission as if a normal level of sales of this product were achieved in order to compensate the agents), we assume other acquisition expenses are 2x their business as usual level in year 1, half in year 2 and zero from year 3 onwards. We assume a 125% 'cost to achieve' and a reduction in other acquisition expenses, spread equally over 2 years.

We assume that administration expenses can be cut more aggressively for the closed traditional life book than the open books of business — we assume a 25% cut in expenses possible vs 15% for open books. We assume a 125% cost to achieve a reduction in administration expenses, spread equally over 2 years.

Exhibit 26:

Impact of closing the traditional life insurance book to new business (this is a close-up of Exhibit 24-please refer to this for y-axis scale reference)



Source: Morgan Stanley Research, Boston Consulting Group

Our model assumes that closing the traditional business reduces the capital requirement (from 7% to 6% of reserves), in part because ALM becomes easier – allowing any duration gap to be minimised further.

4.2 In-force optimisation

We see significant opportunities from in-force optimisation – which can take many forms as we show in **Exhibit 28**.

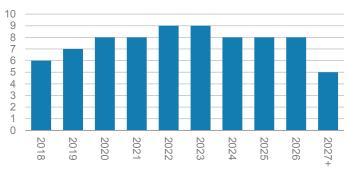
We model benefits from active in-force management of the traditional life business to provide an ongoing benefit to IFRS operating profit equivalent to 5bps per annum of reserves in outer years, with a larger benefit in the near term to reflect one-off actions (see **Exhibit 27**).

We note that some of the UK insurers have been particularly successful in producing ongoing levels of in-force management actions.

Exhibit 27:

Modelled benefit from in-force optimisation (shown as bps of reserves per annum)

In-force management benefit as % of reserves (bps)

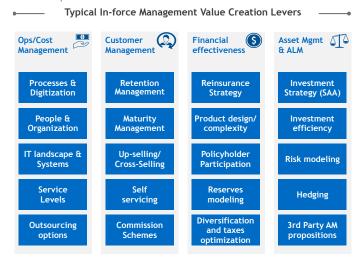


Source: Morgan Stanley Research, Boston Consulting Group



Exhibit 28:

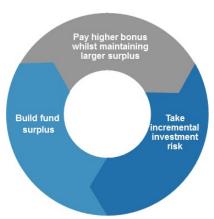
In-force optimization levers



Source: Morgan Stanley Research, Boston Consulting Group

Exhibit 29:

There is an indirect benefit for shareholders from taking more investment risk



Source: Morgan Stanley Research, Boston Consulting Group

In addition, we see the scope for gains to shareholders from re-risking assets.

As illustrated in **Exhibit 29**, taking increased investment risk in a measured way would be expected to generate additional returns, increasing the fund surplus. It is thus possible to pay higher policyholder bonuses (allowing shareholders to access the higher returns through profit sharing) whilst maintaining a larger surplus, allowing additional re-risking of assets.

We assume a 10bps higher investment margin attributable to share-holders as a result of re-risking. Note that we still see the investment margin falling due to the impact of low yields on the long duration asset portfolio.

Impact on agent incomes – we model for a 16% increase in gross income

Exhibit 30 shows the impact of our various strategic actions on the gross income of an average agent.

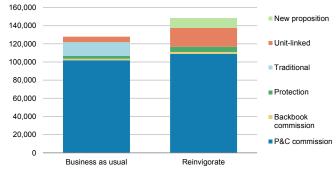
We see a significant impact on gross commissions — with the removal of commissions from traditional life insurance being more than compensated for by the growth in the other product categories.

In addition, we believe that impact on the agents' net income (i.e. after absorbing out-of-pocket administrative expenses) could be even higher given various initiatives to centralise and automate some of these processes at the insurer level.

Exhibit 30:

An average agent has the potential to increase gross income by 16% in our base case

Commission per agent 2020 (EUR)



Source: Morgan Stanley Research, Boston Consulting Group

Key takeaways

In Germany, we believe that strategic actions need to include the in-force book as well as new business franchise given the significant installed balance sheet value. Acting on sales productivity is crucial and should be aided by the fact that agencies are already accustomed to selling a broad range of life and P&C products.



Example: Generali – Restructuring the traditional German Life Business

What is it?

Generali in Germany has undertaken a radical restructuring of its insurance operations – its traditional life business – Generali Leben – has been put into run-off and the group has announced the sale of ~90% the business. The block had a relatively high average guarantee level and the solvency position was weak and volatile – exacerbated by the need to build additional reserves for the ultra-low interest rate environment ("ZZR") on a local statutory basis.

The EVG tied agency force was disbanded, with individual agents offered the opportunity to join DVAG – a separate multi-level distribution broker force in which Generali holds a significant equity stake.

Generali maintains the ability to manufacture unit-linked, protection / risk and non-life products in Germany through different legal entities (the old Aachen Munchener unit, Cosmos Leben etc.). It also maintains the value of proprietary face-to-face distribution through DVAG and direct through Cosmos. The Exhibit below summarizes the transformation.

What is novel about the concept?

Through the transformation, Generali has been able to reduce costs and improve the capital position of the Generali Leben fund (which has reduced risk for shareholders). It has also enabled Generali in Germany to accelerate its shift away from traditional business – with around 70% of Generali's APE now coming from unitlinked and protection.

The pending sale of Generali Leben gives the group the ability to improve returns by reallocating the capital into a higher return activity or potentially even returning the capital to shareholders.

How is it relevant to the future of agency?

The restructuring shows how it is possible in certain circumstances to pivot from a traditional, capital heavy business to a more modern business based on productive distribution and lower capital intensity sales.

It also illustrates the role for run-off – even in a market where the company wants to remain fully engaged in new business sales.

However, clearly Generali was in the fortunate position of having multiple distribution channels in Germany, several legal entities / life carriers and being able to offer an alternative home to its tied agents.

Exhibit 31:

Generali German life business transformation from 2015 to 2018





United States – opportunity to transform distribution beyond the agency channel

Overview

The retail distribution of life and annuity products in the US is on the cusp of substantial change in our view, following nearly a century of limited innovation in the distributors' role in the value chain. While many firms are beginning to ramp up investments, we believe that niche innovators (that are more nimble to react) and/or insurers with greater scale (with greater discretionary investment budgets) are likely be the winners in this rapidly changing landscape.

Unlike many other areas in the world, the publicly traded US life insurers rely less on captive/ tied/ career agents. Third party channels, such as independent agents and brokers, Independent Marketing Organizations (IMOs) wire-houses, banks and broker-dealers account for the majority of sales in the market. Additionally, many carriers are leveraging the developed US Group Life market to sell incremental protection to employees through the worksite channel.

Consequently, to transform the distribution of life and annuity products in the US, we believe that insurers should go beyond the transformation of their career agency system. We have identified four foundational elements as the basis for the Life and Annuities distribution reinvigoration in the US:

- Reinvigorate the agency: insurers could look to address the overall low and wide ranging productivity across agents though agent life cycle management (e.g., improve effectiveness of recruiting, onboarding, etc.), sales force effectiveness efforts (e.g., performance tracking, best practice sharing, proactive attrition monitoring, etc.) and re-thinking their incentive systems.
- Revamp solutions: insurers have an opportunity to significantly simplify their products and solutions (with their associated consumer communications); invest in ways to better convey their value proposition relative to other products (either directly to consumers, or by supporting agents); and

- develop new value propositions that address emerging consumer needs.
- 3. Drive efficiencies: manufacturing and distribution could be better integrated, with insurers working more closely with their distribution partners (captive or independent) supporting them with value added services such as data driven lead generation/qualification and tools to improve the efficiency and effectiveness of the sales process (e.g., e-application, straight-through processing), and accelerating the deployment of automated/ accelerating underwriting platforms
- 4. Address the in-force: In some cases, a full or partial runoff may be an effective solution for insurers. In other cases, looking for ways to improve returns on in-force blocks via cost management (e.g., optimize processes, IT landscape, organizational structure), customer management (e.g., lapses, up-sell and cross-sell), financial effectiveness (e.g., reinsurance), and asset management (e.g., ALM, investments).

Our modelling suggests that the first three elements alone have the potential to drive a 75%+ uptake in life insurers operating margins, see **Exhibit 32**. Beyond this, we see further in-force actions having the potential to generate additional savings, growth and capital efficiency opportunities.

Our modelling was based upon a hypothetical US insurer with a broad range portfolio of life insurance products, including Individual and Group Life (Term, Universal and Whole Life), Fixed Annuities, Variable Annuities and Indexed Annuities and is not intended to represent a specific company, but rather illustrate the potential impact associated with the different levers from our reinvention framework for a typical insurer. We modeled each individual lever independently, to capture their impact relative to a baseline income statement. Below is a brief summary of the different impact associated with each lever:

- Agency life cycle management: efficiencies in recruiting, onboarding and training and higher agent engagement resulting in lower agent churn given the higher agent engagement
- Salesforce effectiveness: improvements in agent overall productivity (e.g., fewer meetings per policy sold, higher conversion rate)



and corrective actions to address underperforming agents resulting lower distribution cost per unit

- Redefine incentives: reduction in per unit commission expenses
- Product simplification: topline uplift from products appealing to a broader audience and being easier to sell/ buy
- Digital illustrations: reduction in addressable marketing and distribution expenses
- New value propositions: topline uplift from products appealing to a broader audience and increased in fee-based income
- Lead generation: increase in productivity (new sales per agent and cross-sell) enable by data & analytics
- Accelerated underwriting: reduction in underwriting expenses (shorter cycle time, no fluids, etc.) and increase in conversion rates, partially offset by a potential uptake in mortality
- STP and journey redesign: reduction in addressable expenses enable by process automation and digitization

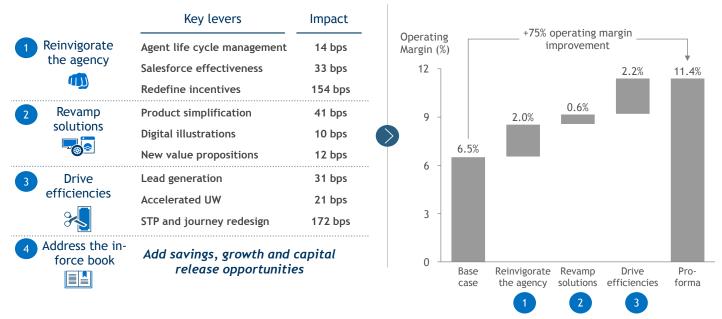
Improving the distributor productivity, lowering per-unit commission and driving efficiencies are imperative to creating value for all stakeholders in our view. Customers can achieve better outcomes from more targeted and simple solutions; distributors can receive an even higher total compensation from improved productivity, while unit costs can be improved from a carrier perspective. These improvements can either be passed on to customers, to shareholders or fund additional investments in the business.

We believe that the pace of change will continue to accelerate. Insurers are already making bold moves when it comes to life and annuities distribution: MetLife moved away from retail life and annuities all together; Nationwide announced the transition to an independent agency model by 2020; MassMutual has invested in direct with Haven Life, while still investing in its traditional affiliated agency; Prudential Financial continues to invest in a broad range of channels under its financial wellness proposition; etc.

What is less clear is whether a major disruptive force will emerge from outside the industry. Given the highly regulated nature of insurance and the heavy capital commitments (significant barriers to entry), we believe that the industry has limited vulnerability to major disruption from external companies from a product manufacturing perspective. That said, there seems to be potential for digital direct to consumer offerings as part of broader financial planning, to continue to grow over time, despite accounting for a small portion of the market in the short term.

Exhibit 32:

Value at stake in reinventing life insurance agency distribution - we see a potential for a 75%+ increase in operating margin for a typical diversified US life insurer



Source: Morgan Stanley Research, Boston Consulting Group



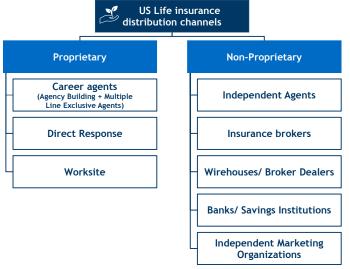
Context

The US has a unique distribution landscape with a wider variety of channels, stronger presence of independent agents and brokers, and much lower reliance on the bancassurance channel relative to other insurance markets. The current landscape is comprised by a combination of both proprietary and non-proprietary channels:

- Proprietary channels: consists mostly of career agents, direct response and worksite channels. These channels are primarily used for the distribution of traditional individual life (protection and savings) and group life products. In the US, career agents are more commonly associated with mutual companies, who tend to focus on traditional life insurance products (e.g., whole life).
- Non-proprietary channels: mostly independent agents, brokerdealers, registered financial advisors, and banks/ savings institutions. In the US, independent channels are more commonly associated with listed companies, who tend to offer a broader set of products.

Distribution strategy varies significantly among US publicly traded insurers; with some companies leveraging a broad range of proprietary and independent channels (e.g., Prudential Financial), while others rely more heavily on proprietary channels (e.g., New York Life and Northwestern Mutual with career agencies).

Exhibit 33:Life insurance distribution channels in the US



Source: Morgan Stanley Research, Boston Consulting Group

In Individual Life, the career agents have been losing share historically in terms of total industry premiums sold, dropping from almost \sim 50% in 2000 to \sim 35% in 2008. The more recent growth driven by highly rated mutual insurers after the financial crisis has helped the channel regain a portion of its lost share. Career agents account for \sim 40% of the market today while non-proprietary channels (independent agents, brokers, wire houses/ broker-dealers and banks) account for \sim 55% of the market.

When it comes to annuities, career agents have a much smaller share of industry sales (~20%) with Broker Dealers, independent agents and banks accounting for a strong portion of the market. Banks have seen their market share come down as they have refocused their energies on their core banking operations following the financial crisis, while independent agents have seen their share increase, due in large part to strong demand for indexed annuities.

The next few paragraphs include additional details on the most relevant life insurance channels in the US and a few examples of recent initiatives.

Career Agents

This seems to be the channel facing the most challenges today, in our view. Commissions account for the vast majority of career agents' compensation and rates tend to be relatively high given the cost, time and effort to prospect new customers with limited support from insurers.

The average age of agents today (captive and non-captive) according to LIMRA is ~56 years old and recruiting agents has been increasingly difficult, particularly millennials (only 4% of them are interested in a career in insurance). In addition to recruiting, the industry also faces challenges with training and retaining new agents. The focus on a narrow set of products (partially due to licensing requirements) also adds to the list of current challenges.

Independent Agents

Independent agents can choose from a wide range of insurance products, which drives competition for shelf space. Price competitiveness, product breadth/consistency and agent compensation tend to be the three most important factors driving product selection decisions by



independent agencies. The transactional and siloed nature of the relationship in between manufacturing and distribution adds significant friction and costs to today's sales process, hindering not only the customer but also the agent experience.

Wirehouses, Broker Dealers, and Banks

Similar to the independent agent channel, competition to get on the shelf of wirehouses, broker dealers and banks is high; however, product turnover tends to be lower in these channels. The main challenge in this channel is associated with competition from non-insurance products: financial planners are at times reluctant to focus on life insurance products given their complexity, the long sales process, and the cumbersome customer experience *vis a vis* other savings and investment products.

Worksite

The worksite channel has been attracting increased interest from insurers with a strong Group Life footprint. Insurers try to capitalize on their direct access to employers looking for ways to reduce costs and employees concerned about their financial wellbeing, as a way to expand their share of wallet (mostly offering voluntary products like vision, dental, short and long term disability, etc.). The majority of these products are offered with limited underwriting requirements (i.e. check-the-box option to include these benefit for \$X dollars per month), with coverage above certain limits requiring full underwriting (e.g., blood, medical, etc.).

Efforts to take a more holistic view of consumer needs across health and wealth are still in their infancy, but show significant potential. However, these efforts require a paradigm shift that includes a more integrated approach, based on data and analytics, enabled by technology and a much more agile way of working.

Example: Prudential – Leveraging Financial Wellness to reinvigorate its proprietary channels

Prudential is seeking to reinvigorate its proprietary advisory channel with the "Prudential Pathways" program, an initiative to further promote their Financial Wellness platform, which includes:

- Individual assessment tools: an easy-to-use online tool that lets workers quickly assess their financial health and review potential action steps they can take to improve it
- "Prudential Pathways" program: a series of focused financial wellness education on-site seminars presented by licensed financial professionals
- Online Financial Wellness Portal: life events and goalbased digital destination that personalizes a stream of financial wellness content, tools, infographics and videos
- Under this initiative, after conducting a self-assessment and attending seminars, employees have the opportunity to follow-up with Prudential's advisors to address their need for various income, investment and protection.

The company is experiencing growing engagement from its employers and employee bases, which they expect to have a meaningful impact on sales.

Direct Response

Direct accounts for a small portion of sales today. Digital direct, despite the double-digit growth over the last few years, still does not account for a meaningful portion of the market. Some likely reasons for this low penetration include: (1) consumers do not necessarily see the need for insurance; (2) the products are still too complex for the average consumer; (3) underwriting is still a barrier, with automated underwriting available only to a relatively limited set of products; (4) customer acquisition has proven more challenging and costly than anticipated.



In our view, new entrants (e.g., technology players and startups in general) are less likely to venture into product manufacturing given the regulatory complexity and capital intensity of the life insurance business. However, there is potential for these players to play a much bigger role in digital distribution given their leadership in technology and data & analytics.

Example: MassMutual investing in direct digital channel and in its agency

MassMutual has been seeking to develop its direct digital channel. Its subsidiary, Haven Life, has developed proprietary end-to-end technology and an automated underwriting platform intended to transform the customer experience. The company has commented positively about ultimately scaling Haven's full technology stack across all of MassMutual's business with customers, agents and third party advisers moving all interactions onto Haven's digital platform. The strategy resembles that of other insurers of separating their legacy operations (sometimes placing these into partial or full runoff under separate management) from its new business. Mass Mutual is developing its digital offering through Haven Life and is also taking steps to reinvigorate its captive agency distribution - for example by acquiring MetLife agents in 2016. MassMutual has also recently announced that it will be providing its agents with an end-to-end technology platform (the Advisor 360 suite, licensed from Commonwealth), which includes portfolio management, workflow and analytics management and client portal capabilities. The technology is expected to allow agents to address customer needs "holistically across planning, protection and wealth management," according to management.

The Future of Distribution: potential opportunities

Life insurance and annuities distribution is on the cusp of a substantial change in our view. Most insurers still operate in silos, have historically placed limited emphasis on the end-customers' experience, and are dealing with unsustainable distribution economics. In our perspective, there are four major opportunities:

1. Reinvigorate the agency

Sales force effectiveness: proactively manage the performance of agents and have clearly defined initiatives to improve overall performance and use key drivers of superior performance to inform recruiting efforts. Among other things, consistently disseminate top quartile best practices to other agents, track performance and proactively manage attrition, etc.

Redefine incentives: align current commission rates and pricing with overall target portfolio, e.g.: decreasing commissions on poorly performing products (potentially using a portion of the acquisition costs savings to drive price attractiveness), increasing commissions on highly performing products to potentially increase volume.

2. Revamp solutions

Product simplification: design simpler and more customer centric solutions that serve evolving consumer needs. In our view, the current product suite is overly complex and the current value propositions are not resonating with consumers. Insurers need to make it easy for agents communicate the value proposition of solutions to consumers (e.g., use plain English in communications, provide more visual explanations, etc.)

Digital illustrations: help agents to better communicate with consumers, more clearly articulate the value proposition of products, and ultimately facilitate the consumers' decision. Assurance is an InsurTech startup offering a policy and sales concept visualization platform that allows agents to better communicate the value proposition of different life products with current and prospective customers. Several carriers are leveraging the startup's technology to create a client-friendly, digital sales illustration experience for wholesalers and agents. Distributors also use the technology to pull data from WinFlex (the multi-carrier software for standard data entry for multiple life insurers offered by Ebix) and display competing products' cash value buildup, surrender values, etc.



New value propositions: embed data on evolving customer needs and wants (e.g., living benefits, piece of mind, etc.) and customer feedback on current offerings (through surveys, current customer data, etc.) into new product development to make solutions more relevant to consumers. The stronger the value proposition, the easier it would be for agents to highlight product's differentiating features, conclude the sale, make a conversion, etc.

Example: John Hancock's Health and Wellness offer

John Hancock is providing all new customers with fitness tracking devices on all its new business through its partnership with Vitality. Customers are financially rewarded for healthy activities and habits by Vitality partner organizations in the short term and health benefits from sustained healthier habits in the long term. John Hancock, in turn, expects to benefit from the data collected and its transformative potential in training automated underwriting algorithms, improving customers' longevity (e.g., 34% increase in physical activity level, according to Vitality research), driving higher engagement (e.g., Vitality customers engage with the app 22 times per month on average), etc.

3. Drive efficiencies

Lead generation/ qualification: empower distributors by using data/ analytics to not only generate leads, but also qualify them based on customers' propensity to buy. Such engines could help agents prioritize their prospecting efforts and suggest the "next best action/ offer" for existing customers, e.g., letting the agent know when a customer is up for conversion, suggesting relevant products (ideally with pre-approved offers) when consumers go through a life event, etc.

Accelerated underwriting: make the underwriting process simpler, faster, and less invasive. Advanced data analytics could allow insurers to arrive at an equally accurate risk assessment without requiring consumers to go through blood tests. Eliminating such requirement should not only reduce the costs of the sales process,

but also significantly improve sales. Insurers seem to be slowly moving in this direction: today ~50% of US carriers have deployed some type of automated/simplified underwriting platforms (mostly for select term products), while another 41% plan to implement it in the coming years according to LIMRA.

Example: Nationwide Intelligent Underwriting

Nationwide, as part of its efforts to transform their life insurance business, has launched in 2016 a streamlined approach to provide a faster and more efficient underwriting process. The process requires fewer attending physician statements and eliminates medical exam requirements for some of the insurer's healthiest clients. For agents it means less time spent on application paperwork, including the need to gather the clients' medical history. The approach has led to approximately 50 percent of preferred risks being accelerated, which means an offer was extended within a day or two and no labs were necessary. Additionally, the accelerated underwriting has been showing a higher placement rate - of ~95% according to the insurer.

"The manual, intrusive process for underwriting healthy individuals with ambiguous results is rapidly changing to a faster, automated, more consistent process using machine learning and predictive analytics. We want to make it a simpler, more streamlined and efficient experience for advisors and their clients through digitization." Company Executive

Straight-through processing: modernize the application process by deploying new technology and tools to support an end-to-end digital experience (e.g., e-submission and e-delivery) and optimize the servicing. This will require insurers to integrate more seamlessly with its partners. A recent Celent survey found that paper applications have a ~70% rate of NIGO (not in good order), while the rates for e-applications are around 5%. E-applications can reduce the costs per application from US\$312 to US\$237 and the average cycle time by ~55% (to 17 days). Further opportunity exists to reduce the cycle to minutes rather than days by using the very latest technology.



Another opportunity is the use of case tracking capabilities to allow agents (and consumers) know exactly where they stand regarding the status of their application process, increasing the transparency of the overall process and eliminating the time and cost associated with periods in which the application is on hold, waiting for someone's action. Finally, Agent workflow management and CRM (client relationship management) tools, including scheduling, pipeline tracking and performance monitoring tools, also have the potential to improve productivity and enhance the agent and end-customer experience. Although the technology has been available for many years, adoption has been lower than expected.

4. Address the in-force book

Strategic option assessment / in-force optimization: consider bold moves to eliminate acquisition costs all together by placing a portion or the entirety of the business into runoff. Many players have already taken bold steps in closing and ring fencing certain blocks of business (e.g., MetLife, John Hancock, Transamerica), while others have decided to divest some of their closed blocks. We believe carriers should continue to look for ways to improve the returns on their in-force blocks via cost management (e.g., optimize processes, IT landscape, organizational structure), customer management (e.g., lapses, up-sell and cross-sell), financial effectiveness (e.g., reinsurance), asset management (e.g., ALM, investments), and by leveraging the emergence of close block consolidators in the US market.

Key takeaways

Life insurers have just started to accelerate the experimentation with new products, accelerated underwriting, use of technology to drive efficiencies, new digital marketing strategies, middle and back office processes digitization, etc. However, there has not yet been a transformational change in distribution and no one company has emerged as a clear leader.

As mentioned above, we believe the economics of the industry are broken, with distribution taking a disproportional share of the overall value from the life insurance ecosystem, while policyholders have been experiencing lower investment returns and shareholders have been achieving dwindling returns on economic capital. However, significant value can be unlocked by insurers who approach the problem holistically, looking at ways to reinvigorate the agency, revamp solutions, drive efficiencies and address their in-force books.



China – lessons from boosting agency productivity

Overview

Unlike much of the developed world, the life insurance market in China is structurally growing – fuelled by the rapidly growing middle class and support from central government (which has classified the insurance sector as a "strategic pillar" with specific growth targets).

The agency channel is crucial in China – accounting for ~90% of new business value, although a smaller share of volumes. Although agent productivity in China remains low by international standards, it is increasing steadily – we believe that some of the ways in which this is being achieved have lessons for other markets.

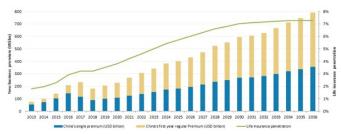
While a shift in product mix has been a major driver, the use of data & analytics, digitization, and technology innovation are also significant factors.

Interestingly this productivity increase has been achieved despite a very large increase in the agency population - which is likely to have had a dampening impact on the productivity metrics.

However, our analysis suggests that further productivity gains are required for insurers in China to meet government ambitions for the size of the industry — otherwise, an unrealistically large number of agents would need to be recruited.

Exhibit 34:

China new business premium forecast - we expect robust growth, in particular driven by higher margin regular premium products



Source: Morgan Stanley Research, Boston Consulting Group

We have identified three foundational elements for Chinese insurers – reinvigorate the agency, revamp solutions and drive efficiencies. We see these three elements as important to not only enable productivity improvements in the short term, but also to make it a sustainable channel in the future.

Context

Insurers in most of the developed world are stuck in a low-growth, low-interest rate environment in which getting a decent return on capital is becoming increasingly difficult. We believe that what is happening in China holds some interesting lessons for how other insurers globally could boost their own productivity and better address customer's needs.

China is already the second largest life insurance market globally after the US and accounts for 11% of global life insurance premiums written. We forecast that regular and single premium new business volumes will grow at 10.1% and 4.6% CAGR, respectively, over the next 20 years (Exhibit 34).

Two major trends are driving this growth in China. First is the rapidly growing middle class, which is creating significant demand for insurance as income, wealth and protection needs to rise. In the last two decades, the count of China's middle class households has risen from nearly 8 million to more than 230 million today, and it is expected to top 330 million by 2025 according to the Economist Intelligence Unit. The second is the support from central government – where insurance penetration (i.e. premiums as a percentage of GDP) is targeted to reach 5.0% by FY20.

The number of agents in China has grown rapidly in recent years to ~8 million agents in 2017 (see **Exhibit 35**), with China Life and Ping An now each having more than one million agents each (**Exhibit 36**).



Exhibit 35:

China's agency force has grown by 175% from 2014-2017 - as the regulatory requirements changed

Number of agents in China (millions)

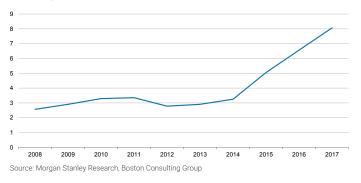
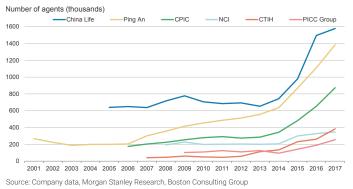


Exhibit 36:

The major domestic players have grown agency numbers at an aggregate >20% CAGR since 2012. China Life and Ping An have over 1 million agents each



Despite recent advances, Chinese agents' productivity lags behind mature markets, which is not surprising considering the 13 years of difference in average tenure between Chinese (4 years of tenure on average) and German agents (17 years of tenure based on our survey), and the exponential growth of the channel.

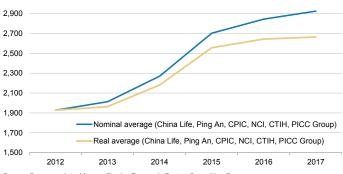
However, as we show in $\underline{\textbf{Exhibit 37}}$, productivity – as measure by value of new business generated per agent per month – has grown steadily in real terms ($\underline{\textbf{Exhibit 38}}$ shows some of the company level performances).

Agency accounts for two-thirds of sales when measured by Annual Premium Equivalent (APE) – see **Exhibit 39** - and more than 90% of new business value thanks to a strong mix of high-margin, regular premium products.

Exhibit 37:

China is an outlier internationally – having seen rapid growth in agent productivity – since 2012 VNB has grown by a CAGR of 6.7% in real terms

VNB per agent per month (RMB)



Source: Company data, Morgan Stanley Research, Boston Consulting Group

Exhibit 38:

New China Life's nominal VNB per agent has increased by 14% CAGR since 2012, whereas China Taiping's has increased by just 4% CAGR VNB per agent per month (RMB)

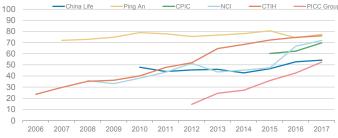


Source: Company data, Morgan Stanley Research, Boston Consulting Grou

Exhibit 39:

Agency has grown in importance for Chinese insurers and now accounts for two-thirds of APE on average

Agency share of APE (%)



Source: Company data, Morgan Stanley Research, Boston Consulting Group



One of the challenges for the industry in continuing to grow rapidly is the low activation rate, high churn rate and low absolute productivity of the agents.

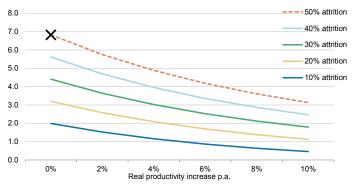
As we illustrate in **Exhibit 40**, assuming stagnant productivity and the high churn levels currently observed (assumed at 50% per annum), the industry would have to hire nearly 7 million agents per annum or cumulatively 89 million agents between now and 2030 (a figure close to the entire Germany population) in order to meet the government's target for insurance density by 2030 (7.0% of GDP).

This is clearly an unrealistic scenario in our view and underlines the need for productivity increases to continue.

Exhibit 40:

We believe that insurers need to continue to increase agent productivity and reduce attrition to meaningfully reduce the level of agent recruitment required for the China industry to meet 2030 volume targets - otherwise nearly 7 million new agents will be required each year

Number of agents recruited p.a. (in millions)



Source: Company data, Morgan Stanley Research, Boston Consulting Group

The majority of agents sell mostly to friends and family, indicating in our view that there is a significant need for professionalization of the agency workforce. Professionalization of agency would also help the industry to attract individuals committed to long-term careers in insurance based on the experience of more developed markets in Asia, such as Hong Kong and Singapore.

Fortunately, insurers in China have been taking decisive actions to increase agency productivity. In fact, they are leveraging technologies in ways that are still rare in developing markets but that could provide a useful roadmap for technology adoption elsewhere. Players like Ping An are already seeing significant effects on productivity as indicated in **Exhibit 41**.

The Future of Distribution: potential opportunities

We believe that insurers in China should continue to drive productivity gains by doing more across the following three foundational elements:

1. Reinvigorate the agency

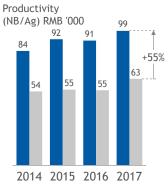
Recruiting

Insurers should look to improve the quality of new hires, recruiting agents who already have some professional services or sales-oriented skills. Historically, the Chinese government has used insurers as places to train people without professional expertise or higher

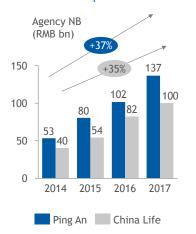
Exhibit 41:

Ping An is an exemplar of our levers to reinvigorate the agency force

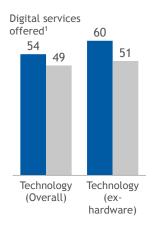
Productivity per agent consistently higher at Ping An



...while growing their agency force faster than peers



Enhanced technology a key driver of higher productivity





education so they can move into the broader services industry. As a result, insurers have spent significant effort training recruits in basic administrative tasks, such as how to use email, manage a calendar, etc. Going forward, we believe that insurers need to raise the bar, recruiting those that already have higher education and some basic professional skills. This would allow them to train recruits on insurance from day one. The use of data and analytics and predictive algorithms can further allow companies to better identify more attractive and qualified potential agents.

Training

Delivering training more efficiently and in a more personalized manner is another source of upside in our view. Insurers could start by embedding testing into the onboarding process to identify specific skills that need developing. They could also seek to become much more nimble and further utilize mobile technology, embracing remote, on-demand training. Companies might replace one-month, in-person training with two weeks of training and then embed agents into the field where they can gain hands-on experience, which is helpful context for future training lessons.

For example, once agents have actually interacted with clients in the field, they could access short training videos focused on various scenarios they have encountered. This way the company would be delivering training based on what the agent specifically needs, instead of taking a one-size fits all approach. This also encourages ongoing training and professional development, making skills-based training even more effective.

On the back end, this approach to training could provide material efficiencies and savings. Instead of having a team of trainers on staff, the company can create training videos one time and stream them year after year. Given that some carriers have more than one million agents, it is critical to be able to scale the very best internal training on demand. Ping An, for example, plans to scale its training from one trainer per 100 agents to one trainer per 10,000 agents through leveraging technology.

Career pathing

Carriers could create an organizational structure that can identify the top performing agents within their workforce to not only reward strong performance, but also provide specialized support to maximize their potential; drive engagement and career satisfaction, particularly for strong performers.

We believe that clear and attractive career progressions for agents—and not just one trajectory since different agents have different motivations, could also be key for the industry to attract and retain talent. Today, many insurers hire someone as a junior agent, promote them to full agent in a year and then offer no other concrete career step for ten years or more. In our view, that is not ideal to keep agents engaged and minimize attrition.

Some high performing agents may want to transition into a management role, such as becoming a lead agent whose compensation is a steadier mix of salary and commissions, while others may prefer to remain client facing. Having different options and with appropriate incentives, promotion criteria, etc. is important.

2. Revamp solutions

In our view, the customer experience in China is significantly better than in many mature markets as some insurers have developed end-to-end digital experiences, leveraging the fact that social and mobile applications are the standard and Chinese insurers do not have to deal with the same level of legacy technology challenges as developed market insurers. For example, not only do agents sell and interact with customers using popular third-party apps such as WeChat, but also customers can make purchases through their phones or other PDAs.

Digital platforms such as WeChat — which has so many functions that it has been called "China's app for everything" — are deeply ingrained in day-to-day Chinese life. A Morgan Stanley-BCG survey found that more than 50% of the consumers interviewed said they would be willing to switch insurers in order to have a better online or self-service interaction.

Some Chinese insurers began this digitization journey more than a decade ago, focusing on digitizing the core business. This involved setting up online channels to reach both customers and distributors, streamlining back-end processes, automating underwriting, improving claims management and processing, etc. Although some of these efforts may have rein-forced the silos within insurers across different functions (underwriting, claims, actuarial, etc.) and business lines (auto, health, life, etc.) others have actually created a robust environment for growth.

Those that have done the proper legwork, can now utilize mobile tools for customer management, after-sales services, policy issuance, training, activity management, marketing, cross-selling and centralized support. These insurers are also in a position to solve real-world problems for customers as apposed to pushing products.



New value propositions

Some insurers are already working in opening up their platform to third parties and building an ecosystem of solutions and services, offering innovative value proposition for customers. By doing so, we believe that they are better serving a broader range of customers' needs: e.g., helping customers with day-to-day activities, such as making a doctor's appointment, or occasional ones, such as buying a home or car.

For example, Taikang Life Insurance connects customers with a network of 1,000 nursing homes, 2,700 dental clinics, and retirement communities in 10 Chinese cities via its "Health Cloud" service. Ping An, another example, has more than 153 million financial services customers (600 million users if considering its health care and medical platform Good Doctor, real estate app Ping An Haofang, and shopping loyalty program Wanlitong).

By extending the type and number of offerings, these companies increase the frequency and the depth of customer interactions and strengthen their connection with customers. In our view, the trick is finding the right partners that can help deliver products and services that address customers' needs.

3. Drive efficiencies

We believe that insurers need to maximize the time agents spend selling, thereby eliminating the time they spend on administrative and support activities. Three areas in particular can drive significant productivity improvements.

Lead generation

Data and analytics can be used to generate quality leads for agents, making the customer prospecting process a lot more targeted and efficient. In our view a reasonable ambition should be to give agents 10 highly qualified leads with a high propensity to buy compared to a list of 100 where there is limited to no information about the leads.

Insurers have massive repositories of data from underwriting and monitoring customers throughout their relationship, which has the potential to improve a number of practices, especially in identifying and pursing leads.

Underwriting

Application pre-fill can significantly reduce the time it takes for agents to ask all the application questions to prospective clients to get basic information. This could easily be done centrally, either by supporting employees, or ideally with proprietary and third party data sources. Chinese insurers are already combining internal and third party data to build a holistic view of customers. For example, by merging customers' accounts for digital services with their accounts for financial services, such as banking or asset management, companies gain an understanding of a customer's life, enabling them to provide better solutions.

Although customer data still needs to be anonymized in China, modern analytical techniques can segment similar customers into clusters with similar product needs and to help estimate propensity to buy. These techniques have the potential to drastically improve agents productivity and effectiveness by allowing them to present personalized offers that are tailored to a customer's specific needs based on their life stages and overall profile.

Ping An has been piloting new underwriting strategies including a facial recognition technology that its claims ranks first in the world with 99.8% accuracy. Ping An's micro-facial algorithms can assess the emotional state of consumers in online smartphone interviews, potentially improving underwriting accuracy and reducing fraud.

Digitization

We think insurers should look to optimize and automate middle and back office processes. Some carriers are pursing this tactic already, but there is much room for improvement. With digital tools, agents no longer need to manually track their pipeline, client management and reporting. The less time agents spend on these administrative functions, the more time they can spend selling and engaging with customers.



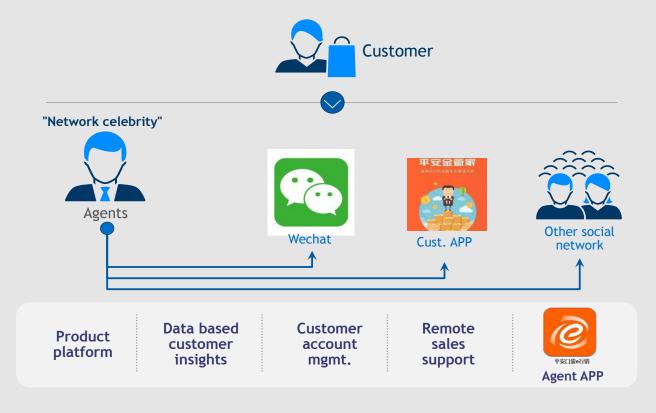
Example: Ping An digital ecosystem

Ping An is leveraging social media platforms, sales apps and tele-support to increase agent productivity (from an already high staring position, relative to local peers), improve agent retention and boost repeat sales. Moreover, these technologies are enabling a novel cross-sell strategy in which agents receive referrals from Ping An's non-life insurance, banking and ecosystem businesses. The three core elements of Ping An SAT (Social, App, Tele-support) approach are:

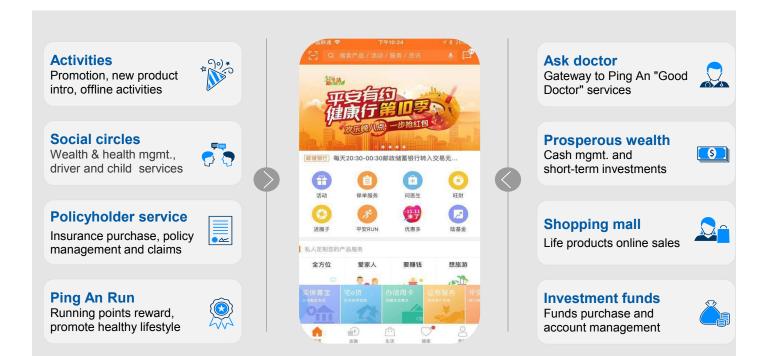
Social platform support for distribution enablement:
 Ping An provides tools to support the agent's profile on WeChat, and other social media channels. The intention is to build the agent's relationship with the customer across multiple platforms (of the customer's choice), promote deeper relationships, and convert sales.

 Two core Apps for distribution enablement: An app developed for agents used to promote customer interactions, and drive-sales. The agent app provides data-based customer insights and activity prompts based on activity on social media (which customers opt in for), WeChat, and the agents' customer app. Further support includes social customer account management, access to the product platform, and remote sales support

The customer facing app, translated literally, Golden Housekeeper App, serves as a central hub of products and services available from Ping An and their ecosystem. The app provides educational resources, management of current policies, a 'shopping mall' with available life, investments, and cash products, rewards for healthy activities, and the 'Ask a Doctor' service which fills a significantly underserved need. These new value propositions enabled by the app illustrate an approach that other insurers could adopt.







 Three 'T's to support: Ping An also provides specialized tele-support for its different products, including financial products from Ping An Bank and its life products at Ping An Life. Tele-agents are trained in techniques for sales and services for their particular product set, ensuring excellent customer service and relevant cross-selling techniques

How is it relevant to the future of agency?

Improving productivity is one of the key challenges for the agency channel – Ping An's approach improves the quality and number of sales leads agents receive and enables the agents to connect with a younger, tech-savvy demographic.

Key takeaways

In our view, China needs to continue to improve agent productivity to meet the government targets and increase the viability for the agent model in the longer run. Chinese carriers have risen to meet this challenge through decisive action leveraging technology in a more advanced manner than the rest of the world. However structural non-technology-based challenges remain, especially in agency activation.

Efforts in China provide valuable lessons for insurers around the world. In particular, Chinese companies are driving efficiencies through a better understanding of customers and associated personalized offerings by utilizing big data, AI, and cloud computing. Additionally, Chinese companies have led the rest of the world by leveraging digital capabilities to deliver new value propositions and a superior customer experience. That said, additional efforts are needed in agent life cycle management for Chinese insurers to meet the country's future productivity goals.



India – opportunity for reinvigoration

The agency channel in India has struggled since the introduction of new regulations in 2009, which capped fees on previously attractive unit-linked products. The number of agents has fallen ~40% from the peak, as their incomes declined rapidly. High fixed costs have further contributed to making the channel less attractive for private insurers than bancassurance.

In order to secure the long-run health of the agency channel in India, we believe that there needs to be a structural improvement in productivity — on terms that are economically attractive to carriers. We also see a continued product mix shift towards protection and digital productivity tools as crucial factors.

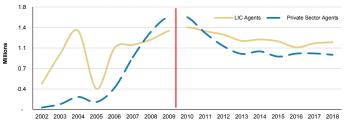
Context

From 1999-2009 the Indian market was in a strong expansionary phase after foreign carriers were allowed to start operating, largely driven by a growing agency force. The regulatory changes in 2010, which capped charges on unit-linked products - prompted a significant shift away from agency towards bancassurance for the private insurers (i.e. excluding the state-owned incumbent Life Insurance Corporation of India or LIC).

The number of agents in India has declined by \sim 40% from its 2009 peak, as shown in Exhibit 42. The share of agency channel in terms of total new premiums has declined to 66% in 2018, from 80% in 2010.

Exhibit 42:

Private Insurers - the size of the agency force continues to contract even after years of regulatory changes (in 2010)



Source: Life Insurance Council, Morgan Stanley Research, Boston Consulting Group Distribution Mix - Private Agency channel has continued to contract post 2010

Some of the main challenges associated with the agency channel (especially for private insurers) include:

High proportion of part-time agents: the majority of agents are part-time, deploy 'old school' sales methods, and primarily tap only in their closest network of friends and families (with few of them expanding beyond that).

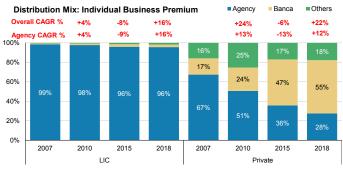
Low agent activation coupled with high fixed distribution costs for insurers: less than a quarter of agents are active (sell at least one policy per month), which coupled with the fact that in India the majority of agents' compensation comes from a base salary, translates into a high fixed distribution cost for insurers.

Poor performance management: many insurers lack the rigor required to onboard, train and effectively manage agents. Most agency managers oversee only a small number of agents, which adds to the high costs structure of the channel.

Limited use of data and technology: Indian insurers are still at early stages when it comes to deployment of digital and technology in the agency channel relative to their Chinese counterparts as shown in Exhibit 44.

Exhibit 43:

Distribution Mix – Private Agency channel has continued to contract post 2010

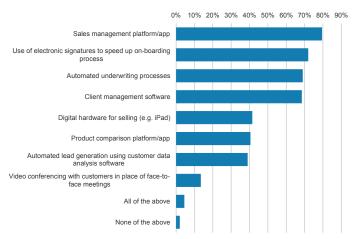


Source: Company data, Morgan Stanley Research, Boston Consulting Group



Exhibit 44:

 $\label{lem:china} China has taken significant steps to digitalise the customer journey and $\sim 80\%$ of agents benefit from a sales management platform or app $$\text{China: Digital Services Offered}$$$

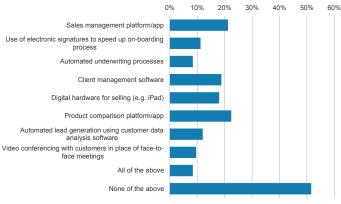


Source: AlphaWise, Morgan Stanley Research, Boston Consulting Group

Exhibit 45:

India is not as advanced as China in terms of offering digital services to agents

India: Digital Services Offered



Source: AlphaWise, Morgan Stanley Research, Boston Consulting Group

The channel holds critical strategic relevance and requires transformation

A diversified channel mix is strategically important, especially for private insurers. Bancassurance is coming under pressure for some of the larger insurers as a result of open architecture and for even some of the others, the economics will be challenged. Other channels are not likely to be large enough in the near future. In addition, as a proprietary channel, agency offers the opportunity for insurers to exercise higher control and expand in a market which is still underpenetrated.

Raising productivity (on profitable terms) - the #1 imperative

Private life insurers have spent the large part of the period since 2010 on a set of interventions to restructure and reduce costs in the agency channel (e.g., by shutting down high cost branches, tightly controlling or even reducing costs of the sales hierarchy) and shift focus from unit-linked products. While interventions have alleviated some of the pressure on the channel, raising productivity on terms which are economically attractive to carriers is critical to build a viable, scalable channel.

Agency reinvigoration driven by twin priorities: excellence in core levers and digital & analytics

In India, while insurers should continue to evaluate various levers to increase viability of the channel (including for example, options to transform fixed costs into variable costs) – we believe reinvigoration of the channel to raise productivity should be a strategic priority.

In our view, this requires action on two fronts: **excellence in traditional agency management levers** such as agent recruitment, training and engagement, and rigorous sales management **complemented with integration of digital and analytics** into the model. Successful life insurers are pursuing actions on both these fronts.

1. Excellence in traditional levers

Rigorous recruitment and on-boarding: We see upside driven by more agents recruited per agency manager (currently insurers of similar profile operate in a wide range of 5-10 agents licensed per agency manager per annum) with a higher proportion of productive agents (again, insurers of similar profile show a large difference). There is a need to revisit this in a number of ways:

- Segment high potential agents and target them with customized value propositions: Recruitment is currently focused on increasing agent numbers, leading to a large base of recruits but low activation and productivity. There is a need to identify high potential segments, link manager KPIs to recruitment of these high potential segments and create customized value propositions for recruitment, on-boarding and engagement.
- 2. Build higher recruitment focus within the sales hierarchy: Often more experienced agency managers struggle to focus on recruitment. We believe that well-designed performance metrics and training for agency managers can boost recruit-



- ment of high producing agents. Additionally, agency managers could leverage their existing network and widen the target pool through partnerships and online recruitment.
- 3. Drive activation and enhance productivity through training and engagement strategies: This training needs to cover both agents and agency managers. As per the survey conducted with agents in India as part of this note, ~60% of agents would like additional training support. Based on experience of select insurers in India, a well-designed engagement and training program leveraging in-branch programs and digital tools could increase agent activation (of both, new recruits and earlier base of agents), drive sales of higher margin products and lead to a boost in agent productivity.
- 4. Product mix optimization and a move towards a solutions focused approach: Given the high fixed cost of the agency channel, it is important to optimize product mix to deliver desired new business margins. Select companies which have driven share of high-margin protection products at over 10% have achieved this through a combination of levers (e.g., product credits, gate qualifier for rewards & recognition, training).
- 5. In addition to standard life insurance products, over time agents (at least certain segments) need to more holistically address evolving customer needs. Insurer offerings in other markets are evolving to include savings, health and wellness solutions. For example, AIA (through WeDoctor) is offering policyholders innovative mobile delivered health and wellness solutions. These will offer insurers an opportunity to engage in high-frequency value added interactions with customers deepening the relationship and facilitating cross-sell or up-sell of other products.

2. Complement excellence in traditional levers with integration of digital and analytics

Chinese insurers (e.g., Ping An) have demonstrated the adoption of technology and analytics at scale by the agency channel contributing to its rapid growth and increase in agent productivity. As detailed earlier in the report, Ping An has leveraged technology to redesign recruitment, accelerate agent skill development, enhance agent management, enable effective interactions with customers increasing premium per agent by over 30%. The experience in China is very relevant for Indian life insurers as they aim to enhance productivity and build a viable agency channel at scale.

For Indian insurers, a hybrid model complementing human engagement with the power of digital and analytics is a critical strategic priority not only to enhance productivity but to also create a more compelling proposition for a digitally active pool of agents.

Leveraging digital across the value chain

In our AlphaWise survey, over 80% of agents in India indicated an interest in adopting technology solutions developed by insurers to stay more competitive in the future. These include using digital sales management tools provided by insurers and tools to improve online presence (e.g., marketing on social networks), among others. For Indian life insurers, digital enablement needs to:

- Move beyond digitization of the application process and target additional elements of the value chain covering recruitment, training, pre-sales (e.g., digital illustrations to facilitate the customer's decision driving higher conversions) and post-sales activities.
- 2. Put emphasis on agent training and engagement using digital tools. Analytics driven nudges on training content, sales actions can further enhance engagement leading to higher activation and productivity. Certain leading life insurers in India are deploying digitally enabled, segment specific training interventions leveraging mobile based tools to complement in-person trainings leading to deeper engagement with agents.
- 3. Cover not just agents but agency managers and the sales hierarchy as well. Digitizing middle and back office functions reduces time agents spend on administrative activities, allowing them to focus on interacting with customers.
- 4. Ensure adoption is given as much importance as technology development. Usually neglected, this requires:
- Designing digital tools and agent/employee journeys which offer a more intuitive user experience.
- An integrated go-to-market approach focused on high priority solutions rather than a plethora of apps and solutions.
- A clear plan for driving adoption through gamification, incentives and reviews.

Embedding data and analytics into the channel: Use of analytics has been sporadic and limited to a few use cases (e.g., customer retention). However, with the breath of data available (both internally and through external sources like bureaus), analytics programs can



create a material impact on the agency channel and become an integral part of the strategy going forward. Chinese insurers have successfully integrated analytics into their agency model – for example, CPIC has rolled out its intelligent advisor product (Alfa Insurance) which uses a breadth of data on CPIC customers and machine learning models to identify coverage gaps and build personalized insurance plans.

For Indian life insurers, capturing value from analytics will require:

A. Prioritization and successful delivery of high value use-cases to build proofs of concept at scale within the organization. Examples of such use cases extend across the value chain and include:

- Recruitment: Use of analytics to identify high potential agents
- Cross-sell and up-sell recommendations which will help agents prioritize their prospecting efforts and drive higher conversions
- Agent churn prediction to identify agents at risk to reduce the natural drop in activation after the first few months
- Personalized triggers on agent performance to incentivize and enable the sales hierarchy to efficiently drive performance

B. Rigour in execution beyond the modelling: Rigorous on-ground operationalization is often neglected and a large part of the value capture lies in driving this in a more disciplined manner

Key takeaways

Excellence on traditional levers coupled with integration of digital and analytics can give the agency channel in India required impetus building a sustainable growth platform. Higher and better quality recruitment along with activating a large pool of inactive agents driven by structured engagement and up-skilling can significantly enhance the base of active agents per agency manager. In addition, it is possible to increase agent productivity providing a further growth uplift to the channel. This is feasible to achieve while increasing the share of high-margin products. Overall, within 12 months of rolling out these interventions, we think reinvigoration of the agency channel could enhance agency manager productivity by greater than 25-30% (accompanied by increasing share of high-margin products). In addition, it would prepare the platform for sustained productivity increase and profitable growth.



Appendix – Global Coverage

Jon Hocking	Insurance (Europe)			
Prudential plc	PRU.L			
St. James's Place Plc	SJP.L			
Aviva	AV.L			
AXA	AXAF.PA			
Just Group PLC	JUSTJ.L			
Allianz	ALVG.DE			
Legal and General	LGEN.L			
Lancashire Holdings Limited	LRE.L			
Phoenix Group	PHNX.L			

Nigel Dally	Insurance - Life/Annuity (North America)		
Athene Holding Ltd	ATH.N		
AXA Equitable Holdings Inc	EQH.N		
Ameriprise Financial, Inc.	AMP.N		
Voya Financial Inc	VOYA.N		
Brighthouse Financial Inc	BHF.O		
Prudential Financial	PRU.N		
Unum Group	UNM.N		
Lincoln National Corp	LNC.N		
CNO Financial Group Inc.	CNO.N		
MetLife Inc.	MET.N		
Manulife Financial Corp.	MFC.TO		
Principal Financial Group	PFG.O		
Sun Life Financial Inc.	SLF.TO		
Aflac	AFL.N		
Torchmark Corp.	TMK.N		
Reinsurance Group of America	RGA.N		

Jenny Jiang	Hong Kong/China Financials (Asia Pacific)				
AIA Group	1299.HK				
Fosun International Ltd	0656.HK				
China Pacific Insurance (Group) Cc 2601.HK				
Ping An Insurance Company	601318.SS				
Ping An Insurance Company	2318.HK				
PICC P&C Company Ltd	2328.HK				
ZhongAn Online P & C Insuranc	e C 6060.HK				
China Taiping Insurance	0966.HK				
China Life Insurance	2628.HK				
New China Life Insurance Com	par 1336.HK				
PICC Group	1339.HK				
China Pacific Insurance (Group) Cc 601601.SS				
China Reinsurance Group	1508.HK				
New China Life Insurance Compar 601336.SS					
China Life Insurance	601628.SS				

Sumeet Kariwala	India Financials (Asia Pacific)			
ICICI Prudential Life Insurance	ICIR.NS			
Kotak Mahindra Bank	KTKM.NS			
HDFC Life	HDFL.NS			
Federal Bank	FED.NS			
AU Small Finance Bank Ltd	AUFI.NS			
Bank of Baroda	BOB.NS			
Canara Bank	CNBK.NS			
Bank of India	BOI.NS			
RBL Bank Limited	RATB.NS			
Yes Bank	YESB.NS			
Punjab National Bank	PNBK.NS			
IndusInd Bank	INBK.NS			

Jonathan Denham	Insurance (Europe)	
Direct Line Group Plc	DLGD.L	
RSA Insurance Group PLC	RSA.L	
Hastings Group Holdings PLC	HSTG.L	
Admiral Group Plc	ADML.L	



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(as of February 28, 2019)

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	Coverag	e Universe	Inve	estment Banking Clien	ts (IBC)		restment Services Clients (MISC)
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1115	36%	296	42%	27%	526	38%
Equal-weight/Hold	1379	44%	325	46%	24%	639	46%
Not-Rated/Hold	46	1%	6	1%	13%	6	0%
Underweight/Sell	585	19%	82	12%	14%	225	16%
Total	3,125		709			1396	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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Jonathan Denham		
Admiral Group Plc (ADML.L)	E (11/27/2018)	2,100p
Direct Line Group Plc (DLGD.L)	0 (11/27/2018)	352p
Hastings Group Holdings PLC (HSTG.L)	E (11/27/2018)	209p
RSA Insurance Group PLC (RSA.L)	E (02/22/2019)	507p
Jon Hocking		
Allianz (ALVG.DE)	E (02/28/2017)	€196.80
Aviva (AV.L)	O (04/13/2015)	422p
AXA (AXAF.PA)	O (01/16/2019)	€22.17
Just Group PLC (JUSTJ.L)	E (06/21/2017)	97p
Lancashire Holdings Limited (LRE.L)	E (09/11/2015)	649p
Legal and General (LGEN.L)	E (11/04/2011)	271p
Phoenix Group (PHNX.L)	E (07/07/2017)	694p
Prudential plc (PRU.L)	0 (12/10/2010)	1,536p
St. James's Place Plc (SJP.L)	0 (12/12/2013)	999p
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